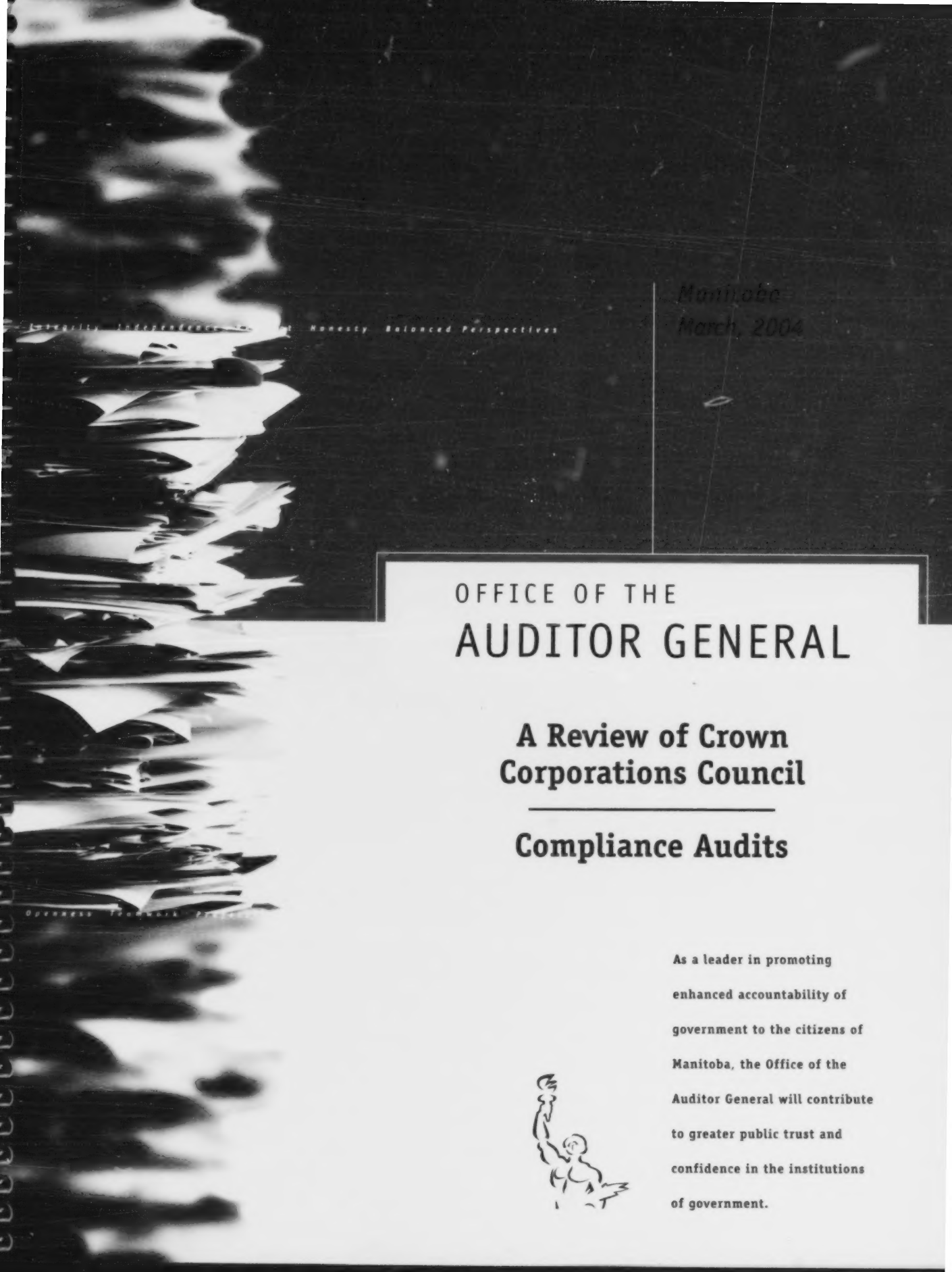

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A Review of Crown Corporations Council

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March 2004

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report on *A Review of Crown Corporations Council* and *Compliance Audits* to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

104-04430/

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A REVIEW OF
CROWN CORPORATIONS COUNCIL

Although Crown Corporations Council (Council) is a small organization, its potential impact is significant. Yet, since its establishment in 1989, neither the performance of Crown Corporations Council nor the legislation under which it was created have been assessed. This review examines Crown Corporations Council's performance in three areas:

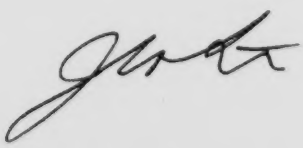
- delivering its legislated mandate;
- relationship building; and
- utilization of best practices in strategic planning and management.

Three factors made it difficult to assess Council's performance: first the ambiguity of the legislative framework governing Council; second, Council's expected outcomes (the impact it hopes to have through its activities) are not sufficiently robust; and third, a general absence of data at Council to demonstrate its outcomes. The building blocks of all organizations are: to have clear legislation in place; to be clear as an organization about intended impacts; and to have performance measures that enable an organization to track its performance relative to its intended impacts. As such, the findings and conclusions of this report have application to other public sector organizations. To those entities, I direct you to Part 5 of the report which presents a check-list of guiding management practices.

Our review shows that there is much room for interpretation with respect to Council's mandate and how it should carry out its role. Questions around the scope of Council's mandate and role signal a need to reconsider the clarity of the legislation governing Council.

Government initiatives once established ought not to be left to continue ad infinitum without periodically revisiting or reconsidering their performance and the way in which they are being managed. It is good management practice for Government to evaluate, at regular intervals, the performance of organizations, programs, and policies it establishes. The aim of such a practice is to provide Government with evidence-based information on how well its objectives are being met and consequently, how effectively resources are being utilized.

A culture of continuous improvement needs to be championed within the Government reporting entity as an operating principle. Opportunities for continuous improvement within the government reporting entity need to be identified and implemented at an organizational, program and policy level, as needed, at regular intervals.



Jon W. Singleton, CA•CISA

Executive Summary

A. OBJECTIVES, SCOPE AND APPROACH

The objectives of our review were to assess Crown Corporations Council's performance in:

- delivering its legislated mandate;
- relationship building; and
- utilizing best practices in strategic planning and management.

In examining performance in relation to these objectives, we did not include a review of the results or outcomes of Council's operations. Our review of performance is based on criteria we developed in relation to a set of key areas that cover the objectives of the review (**Appendix 1**).

Evaluating the performance of an organization such as Council poses certain challenges by virtue of the fact that its work is essentially advisory in nature – monitoring, developing recommendations, and building working relationships with its client and stakeholders. Nevertheless, it is important to attempt to do so in order to make a determination as to whether advisory bodies such as Council are well positioned to fulfill the purpose for which they were created. In this regard, we have developed a set of guiding practices that can assist other organizations who have responsibilities that are similar in nature to those of Council (**Part 3**).

The review covers the two-year period January 1, 2000 to December 31, 2002.

B. BACKGROUND

Council was established in 1989 in response to a need to strengthen the accountability mechanisms for the Province's crown corporations. *The Crown Corporations Public Review And Accountability Act* (The Act) designates the crown corporations (crowns) under Council's purview. Currently, the seven crowns under Council's purview are:

- Manitoba Hydro
- Manitoba Public Insurance Corporation
- Liquor Control Commission
- Manitoba Lotteries Corporation
- Communities Economic Development Fund
- Venture Manitoba Tours Ltd. and
- The Centennial Centre Corporation.

Collectively, these crown corporations generate approximately $3.3 billion annually. Thus it is understandable that the Government would want to ensure adequate accountability and monitoring of the health of the crowns sector. Essentially Council through its monitoring role provides advice and recommendations to the designated crowns and Government.

Council carries out its work through a seven member board of directors appointed by the Lieutenant Governor in Council (L.G. in C.), and five staff persons. Its annual operating budget for the year January 1, 2001 to December 31, 2002 was $649,000, largely financed through levies from the designated crowns.

C. OVERALL CONCLUSIONS AND FINDINGS

Council's strengths in delivering its legislated mandate and in relationship building are identified below. In common with most organizations, there are opportunities for Council to enhance its practices in these areas. As well, we believe that strengthening of strategic planning and management practices would produce benefits both in terms of implementing our recommendations and in positioning Council to respond to changes in its operating environment as these present themselves.

More specifically, we found the following strengths in Council's performance:

- fostering two-way communication with the designated crowns and government ministers, and building trust and positive working relationships with them;
- building-up a good knowledge base regarding the general operations of the designated crowns, the issues they face and more broadly, sectoral trends that affect them;
- remaining current on best practices in governance, planning, performance management and administration, in order to provide government and the designated crowns with up to date advice and assistance;
- showing leadership in developing guidelines and recommendations for the designated crowns to follow in relation to performance measurement and reporting; and
- preparing reviews of the capital expenditure proposals of the designated crowns.

Mandate And The Legislation

Unlike other legislation, The Act governing Council does not require Council to undergo five year reviews of its performance. Incorporating into The Act this type of provision would ensure that Government is provided with valuable information that would assist it to evaluate at regular intervals matters including: the suitability of Council's mandate and performance in carrying out its responsibilities; the need for any changes to the list of crowns designated under Council's purview; and how best to utilize Council's strengths in the future to assist the crown sector in Manitoba. In fact, from work we conducted and reported on in December 2002, *Performance Reporting in Annual Reports: Current Practices Among Crown Entities*, we found that the smaller entities would benefit from capacity building in areas of governance, planning, performance measurement and reporting yet lacked sufficient resources to fully undertake such capacity building. Thus periodic legislated reviews of Council could also identify opportunities for building on Council's advisory and facilitator role to benefit other public sector organizations.

We believe that our findings identify symptoms rather than problems. Our findings underscore a more fundamental question, that of whether The Act is providing an appropriate framework for the current times? At issue are questions such as:

- What are the current and projected needs of the crown sector?
- What performance expectations does Government have of the crown sector?
- What safeguards does Government want in place to ensure the health of crowns and appropriate accountability of the crowns?

- Do the current purpose, mandate, and powers of Council continue to meet Government's needs?
- How have Council's activities under the current mandate contributed to improvements in the crown sector?

Thus we suggest that, in order to properly address this report's conclusions and recommendations, Government should consider initiating a comprehensive examination of The Act in relation to the issues we raise. The ultimate objective of such an examination is to ensure that Government and crown resources are focused as strategically as possible in fulfillment of clear performance expectations to be established by Government.

During the course of conducting our review we found that certain provisions of The Act are open to interpretation. These are the requirement for Council to carry out its mandate through facilitation in co-operation with the designated crowns, and its responsibility to ensure consistent practices among two or more corporations where appropriate.

Council has interpreted its role in the area of facilitation to mean: providing the designated crowns with an opportunity for feedback and discussion in relation to the observations and recommendations that Council makes in its annual reviews that it prepares on each of the designated crowns; making sure that the designated crowns know about the projects that Council is working on that may affect them; requesting the designated crowns to identify a contact within their organization who can answer questions that Council has; and fostering trust to ensure co-operation by the crowns in responding to Council's information requests. However, another potential interpretation is that facilitation should also include seeking input from the designated crowns with respect to the criteria that Council will use to determine whether the designated crowns have: clear mandates and statements of purpose; and consistent and effective criteria for measuring the performance of the designated crowns. Seeking such input from the designated crowns could contribute to relationship building between Council and the designated crowns.

Moreover, The Act is inconsistent in its requirements on facilitation. It requires facilitation in regard to the development of a clear mandate and statement of purpose, and the development of consistent and effective criteria for measuring performance. By contrast, the legislation does not place any expectation of facilitation in regard to Council's mandate to ensure consistent practices among two or more designated crowns.

Similarly, in relation to its legislated mandate to ensure consistent practices, Council has interpreted its role to mean encouraging the designated crowns to adopt best industry practices within their sector and sharing with them information on current policy procedures among the designated crowns. Here again, another potential interpretation of The Act is that Council should develop guidelines on consistent practices, and should have a strategy for monitoring that actual practices within the designated crowns is consistent with Council's guidance.

There are a number of provisions in The Act (sections 13, 14 and 24) which place certain obligations on the crowns. Currently compliance with these provisions is not monitored by Council. The Act does not assign to any particular entity the responsibility for

monitoring crown corporations' compliance with these provisions. Given the context in which The Act was adopted and the fact that the designated crowns collectively generate approximately $3.3 billion in revenues annually, we believe that there needs to be monitoring of whether the designated crowns are complying with various obligations placed on them by The Act.

Relationship Building

Periodic surveying of an organization's clients and stakeholders is an accepted best practice aimed at providing organizations with opportunities for making continuous enhancements to their performance. Adding this practice would offer Council a rigorous method for obtaining feedback from its client and stakeholders on: their perspective regarding the contribution that Council is making to them; and their views with respect to how Council is interpreting and carrying out its legislated mandate. Ultimately, we believe this approach would build on Council's efforts in the area of relationship building and would reinforce its facilitator role.

Strategic Planning and Management

Council demonstrates several aspects of being a continuous learning organization such as providing on-going opportunities for professional development and training for its staff and taking steps to remain current in the area of best management practices and knowledgeable in the various sectors that affect the crowns under its purview. Council needs to build on these practices by benchmarking its performance and collecting and analyzing information from other organizations who have functional responsibilities similar to its own – i.e., responsibilities to monitor, analyze, advise, promote leading practices in planning and management, and make recommendations. We believe that the application of more robust strategic planning and management practices by Council, particularly in the establishment of, and reporting on, outcomes, would offer Council opportunities to further strengthen its performance. Beyond these conclusions, we have provided Council for its consideration with a management letter that contains detailed observations regarding its strategic planning and management.

D. RECOMMENDATIONS

1. That Government consider undertaking a comprehensive review of *The Crown Corporations Public Review and Accountability Act*. A comprehensive review would include examination of such questions as:

    a) What are the current and projected needs of the crown sector?
    b) What performance expectations does Government have of the crown sector?
    c) What safeguards does Government want in place to ensure the health of crowns and appropriate accountability of the crowns?
    d) Do the current purpose, mandate, and powers of Council continue to meet the needs of Government?
    e) How have Council's activities under the current mandate contributed to improvements in the Crown sector?

2. If Government decides not to undertake a comprehensive review of The Act that it consider amendments to The Act to:

   a) clarify:
      - the meaning of "facilitate in co-operation with"; [Clause 6(1)(a) and (b)]; and
      - expectations relative to the requirement to "ensure" consistent practices. [clause 6(1)(c)]

   b) provide for facilitation under clause 6(1)(c) in relation to Council's mandate to ensure consistent practices.

   c) assign to Council or another entity responsibility for monitoring and enforcing compliance by the designated crowns with the various obligations placed on them under The Act namely, monitoring whether crowns are complying with the statutory requirement:
      - to conduct a review of their strategic plan and performance under that plan at least once every 5 years [clause 13(1)(d)];
      - to hold a public meeting at least once in each year in Winnipeg and at least two other centers, including one in northern Manitoba and one elsewhere in Manitoba, as determined by the board [clause 13(1)e)];
      - that every board of a corporation shall develop and adopt guidelines respecting conflicts of interest for employees of the corporation in accordance with general guidelines developed by Council [subsection 13(2)];
      - that the chairperson of a corporation forward to the minister responsible for the corporation after each meeting of a board, the chairperson's report on the business transacted at the meeting with supporting documentation for every decision recorded in the minutes of the meeting [subsection 14(3)];
      - that designated crowns maintain a record of each complaint received from the public, how it was investigated, the resolution and the reasons for resolving the complaint in the manner selected [subsection 24(1)]; and

   d) add a new provision that requires at least once every five years an independent review of Council in accordance with guidelines provided by the minister. This review could include consideration of the appropriateness of the crowns designated under Council's purview and the suitability of Council's mandate and practices in relation to current needs among the crowns.

3. While Government gives consideration to the above legislative amendments to The Act, we recommend that Council consider the merits of:

   a) Taking a more proactive approach to facilitation in co-operation with the designated crowns. For example, Council could develop, in consultation with the designated crowns a set of criteria reflecting best practices in writing mandates and statements of purpose that build on Council's current practice of assessing whether the mandate is consistent with the crowns' legislation and other directives or priorities of government. Council could also develop and implement a strategy of on-going initiatives to promote the use of performance measurement by the designated crowns and to assist them in their efforts to apply best practices in this field. This could include the development of a common set of performance indicators in consultation with crowns.

   And

   b) Adopting a more robust approach to ensuring consistent practices among the designated crowns.

4. That Council develop a formal protocol for dealing with instances in which a designated crown does not wish to disclose information to Council that Council believes it needs in order to maintain its ability to fulfill its advisory role.

5. That Council develop and implement a process for periodically surveying government and the designated crowns on their satisfaction with how Council interprets and carries out its mandate.

6. That Council develop a performance measurement framework that enables it to focus on public reporting of its outcomes.

E. RESPONSE TO RECOMMENDATIONS FROM COUNCIL'S BOARD

Council has a budget of $649,000 and a total staff of five people. Within the limits of current fiscal and human resources Council is satisfied our goals have been achieved. Needless to say there are areas that could be enhanced if resources are made available.

Recommendations 1(a) to (e) and 2(a) and (b)

Council has no comment on these recommendations to Government. A comprehensive review has been conducted on many of the issues enumerated in these recommendations. This was conducted under Order in Council 38/2001 where Council was requested to review issues with regards to Manitoba's Crown corporations. This review, which encompassed ministerial roles with respect to policy direction and operational oversight of Crown corporation activities, included cross-jurisdictional best practices. The review also considered the context of ministerial public accountability for actions of Crown corporations and Crown corporations' accountability to the public.

Recommendation 2(c)

The Auditor advocates an additional level of oversight to Crown activities. The current structure of the Act relies on Board of Directors reporting through an accountable Minister to the Legislative Assembly. With regards to records of complaint, it should be noted in subsection 24(2) of the Act that Council or any person authorized by Council may review at any reasonable time these records. Council staff did such a review in 2000 and concluded that the Crowns are maintaining appropriate records in resolution of complaints as required in subsection 24(1).

Recommendation 3

The development of a set of performance indicators applicable to all Crowns regardless of size or structure would be of little value. As an alternative Council has approached such issues as Board governance, audit committees, performance reporting, strategic planning and risk management as deemed appropriate to the specific Crown.

Recommendation 4

The Act provides the formal protocol if Council concludes that material provided is inadequate. Under Section 6(2) of the Act, "Council may request through the Minister responsible for the particular corporation, reports to the Council at any time on matters considered by Council likely to have a material effect on the performance of the corporation in terms of its objectives". Our view is that the statute is adequate to deal with this issue.

Recommendation 5

Council has not utilized a formal survey or interview process for gathering client and stakeholder satisfaction. It is felt that with seven Crowns, direct feedback is a more prudent methodology. Council, through Board and staff, have ongoing contact with the Crowns and will continue personal contact as the means of assessing satisfaction with Council's performance.

Council meets periodically with the Minister, invites the Minister to meet with Council and also meets with each Minister to whom the Crowns report. It is Council's opinion that current methods provide appropriate opportunities for the Crowns to express any concerns related to how Council interprets and carries out its mandate.

Recommendation 6

Council's most recent annual report reflected a response to the Auditor General's annual public reporting requirements on outcomes.

F. COMMENTS FROM GOVERNMENT

We note with interest the Auditor General's recommendations which we will consider over our current mandate. Guiding our consideration of this will be our view that Manitoba crowns are subject to many forms of accountability: to the legislature through annual reports and committees and to the public through each electoral mandate.

With respect to the role and activities of the Council related to performance measurement, the Government believes recent initiatives of the Council address these areas of concern. Specifically, the Council has developed and published a set of corporate performance measurement and reporting guidelines for Crown Corporations, and is actively building the capacity of Crowns in respect of key issues such as board governance, risk management and performance reporting.

The recommendation that the Council develop common performance indicators would be very difficult to implement effectively given the diverse roles and scope of Manitoba's Crowns.

Further, the Council has recently implemented changes to its own annual report to address the concerns highlighted in recommendation #6.

Part 1: Introduction

1.1 OBJECTIVES OF THE REVIEW

The objectives of our review were to assess Crown Corporations Council's performance in:

- delivering its legislated mandate;
- relationship building; and
- utilization of best practices in strategic planning and management.

In examining performance in relation to these objectives, we did not include a review of the results or outcomes of Council's operations. Our review of performance is based on criteria we developed in relation to a set of key areas that cover the objectives of the review (**Table 1**).

Evaluating the performance of an organization such as Council poses certain challenges by virtue of the fact that its work is essentially advisory in nature – monitoring, developing recommendations, and building working relationships with its client and stakeholders. Nevertheless, it is important to attempt to do so in order to make a determination as to whether advisory bodies such as Council are well positioned to fulfill the purpose for which they were created. In this regard, we have developed a set of guiding practices that can assist other organizations who have responsibilities that are similar in nature to those of Council (**Part 3**).

1.2 LEGISLATIVE AUTHORITY

Our assessment was conducted under subsection 14(1) of *The Auditor General Act* and subsection 12(2) of *The Crown Corporations Public Review and Accountability Act*. Subsection 14(1) of *The Auditor General Act* states that:

> *"14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:*
>
> *a) whether financial and administrative provisions of Acts, regulations, policies and directives have been compiled with;*
> *b) whether public money has been expended with proper regard for economy and efficiency;*
> *c) whether the Assembly has been provided with appropriate accountability information;*
> *d) whether the form and content of financial information documents is adequate and suitable."*

Subsection 12(2) of *The Crown Corporations Public Review and Accountability Act* states that:

> *"12(2) The Lieutenant Governor in Council or the Auditor General may at any time order an audit or investigation into the business and affairs of the Council and the making of a report thereon which audit or investigation may be conducted by the Auditor General."*

1.3 SCOPE AND APPROACH

Our review is based on criteria we developed in relation to a set of key areas that cover the objectives of the review (**Appendix 1**). Various sources were used to develop the criteria such as similar work undertaken by the Auditor General of Canada, the CCAF Attributes of Effectiveness, and the Canadian Quality Criteria for the Public Sector.

The review covered the two-year period of January 1, 2000 to December 31, 2002. Field work for the review was conducted between January 2003 and March 2003 and evidence was gathered through:

- the review of documents provided by Council;
- interviews with the Chairman of Council's Board and four other board members representing a cross-section in terms of the number of years they have served on the Board;
- several meetings and interviews with Council's Chief Executive Officer (CEO) and professional staff; and
- an interview with the Minister of Finance who is the minister responsible for Council.

We performed our work in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

It is important to note that in reviewing various reports prepared by Council over the two-year period, the scope of our work did not include a review of the quality of Council's findings and conclusions contained in their reports.

1.4 BACKGROUND

Council was established in 1989 in response to a need to strengthen the accountability practices for the Province's crown corporations. At the time of Council's establishment, the following issues were prevalent with respect to the crown corporations sector:

- significant financial losses in the crown sector;
- poor financial position and planning by crown entities;
- crowns operating without a clear mandate;
- lack of public accountability;
- lack of scrutiny of rates for services; and
- an increasing loss of public confidence in the operations of crowns.

Council's Mandate

To deal with the types of issues noted above, *The Crown Corporations Public Review And Accountability Act* (The Act) was adopted in 1989. The Act established Council and prescribed to the crowns designated under it, certain accountability requirements that they have to fulfill.

Through The Act, Council is assigned a monitoring and advisory role in relation to crown corporations designated under its purview. The Act states:

6(1) The Council shall

a) facilitate, in co-operation with each corporation, the development of a clearly defined mandate and a clear statement of purpose for the corporation;

b) facilitate, in co-operation with each corporation, the development of consistent and effective criteria for measuring the corporation's performance;

c) review long term corporate plans and capital expenditure proposals of corporations, ensure consistent practices among corporations where appropriate and provide any advice to the Lieutenant Governor in Council on those plans, proposals and practices or any other matter of policy affecting corporations that may be requested by the Lieutenant Governor in Council;

d) receive and hear submissions from any person who, in the opinion of the council, has knowledge respecting any aspect of a corporation's activities regarding alleged failures by the corporation to comply with any Act or any policy of council."

Crown Corporations Designated Under Council

Typically the crown corporations under Council's purview are self-financing enterprises that function like a commercial business. A crown corporation may be assigned to Council where Government believes that a crown requires some assistance to make it more viable. The crown corporations designated under Council have changed from time to time since its inception. Currently, the seven designated crown corporations are:

- Manitoba Hydro
- Manitoba Public Insurance Corporation
- Liquor Control Commission
- Manitoba Lotteries Corporation
- Communities Economic Development Fund
- Venture Manitoba Tours Ltd. and
- The Centennial Centre Corporation.

Collectively, these crown corporations generate approximately $3.3 billion in revenues annually.

Financing Of Council

Council's revenues are derived from levies that it sets and charges to each of the designated crowns. Approximately 95% of its revenue comes from these levies and the balance of its income is derived from interest and reserve funds. Its total revenue for each of the years ending December 31st, 2000, 2001, and 2002 was: $607,000, $856,000 and $649,000 respectively.

Organizational Structure Of Council

Council has a board of directors comprised of at least seven members appointed by the Lieutenant Governor in Council (L.G. in C.):

- the Dean of the Faculty of Management at the University of Manitoba;
- a representative nominated by the Institute of Chartered Accountants of Manitoba;
- a person who, in the opinion of the L.G. in C., represents organizations of consumers in Manitoba; and
- at least three persons who, in the opinion of L.G. in C. have management or technical expertise.

The chairperson and vice-chairperson of Council's Board are designated by the L.G. in C. It should be noted that members of the Legislative Assembly are not appointed to Council's Board.

Council's Board carries out its responsibilities with a staff of five persons consisting of a CEO, two professional staff, and two administrative support staff.

1.5 OVERSIGHT OF CROWNS IN OTHER JURISDICTIONS

Six Canadian jurisdictions have an organization that performs some type of oversight function in relation to crowns: Canada, British Columbia, Saskatchewan, Manitoba, Ontario and Nova Scotia. With the exception of Manitoba and Saskatchewan, the organization mandated with oversight responsibilities for crowns is housed within government. Unlike Council, Saskatchewan's Crown Investment Corporation is a holding company for 10 subsidiary commercial crowns and a portfolio of publicly owned investments, and its board of directors is comprised of Cabinet Ministers. As such, Council is a unique delivery model in Canada. **Appendix 2** provides a comparison of the mandate of entities in Canadian jurisdictions who oversee the activities of crown corporations.

Part 2: Findings and Conclusions

In this section of the report we present the criteria, findings and conclusions in relation to each key area identified in **Appendix 1**.

2.1 MANDATE AND PURPOSE OF CROWNS

The Act requires Council to "facilitate, in co-operation with each crown corporation, the development of a clearly defined mandate and a clear statement of purpose for the corporation". [Clause 6(1)(a)]

Findings

Annually, Council prepares Mandate and Strategy Reviews/Corporate Performance Reviews that include an assessment of whether each designated crown corporation's plans, policies, capital budgets, strategies and so forth are in keeping with the crown's legislated mandate. As part of these reviews, Council examines whether each crown has a clear statement of its mandate and purpose. While professional staff do not use a common set of criteria to assess the clarity of mandates and statements of purpose, they advised that they typically focus their review on whether the statements of a crown's vision, mission and mandate are consistent with its legislation and with any directives or priorities of Government.

The Minister of Finance and the ministers responsible for each of the crowns in question receive a copy of the annually prepared Mandate and Strategy Reviews/Corporate Performance Reviews. As well, Council briefs the ministers responsible on the main findings in their report. Council also shares its findings from these reviews with the crowns.

Conclusions

- *Council has taken steps to meet its mandate under clause 6(1)(a) of The Act. Nevertheless, there is an opportunity for Council to strengthen its review of the clarity of mandates and statements of purpose by developing, in consultation with Crowns, a set of assessment criteria reflecting best practices in writing mandates and statements of purpose.*

2.2 CONSISTENT AND EFFECTIVE MEASUREMENT OF PERFORMANCE

The Act requires Council to "facilitate, in co-operation with each crown corporation, the development of consistent and effective criteria for measuring the corporation's performance". [Clause 6(1)(b)]

Findings

In April 2001 Council prepared and distributed to the crowns a document entitled, *Corporate Performance Measurement and Reporting* which contains 15 recommendations.

Council also made presentations on the recommendations to the designated crown boards and executives who wanted such a presentation. We compared Council's guidelines on performance measurement and reporting contained in the April 2001 document to the principles we have established for reviews of performance reporting (**Figure 1**) and found them to be generally compatible.

FIGURE 1

Key Principles of Effective Performance Reporting	
Principle	**Criteria**
Relevant Measures	• Having measures that are logically and directly related to the corporation's vision, key goals/outcomes and functions.
Balanced Mix of Measures	• Having financial and non-financial measures that measure both quality (effectiveness) and productivity (efficiency).
Focused on Measuring Outputs and Outcomes	• Selecting measures that not only measure inputs and activities, but as well, outputs and outcomes.
Cost Effectiveness	• Measures are sufficiently valuable to justify the cost of producing the information.
Valid Measures	• Measures accurately capture the information intended.

Council advised the crowns at the outset of the process that it was preparing its 2001 *Corporate Performance Measurement and Reporting* document. Consultation with designated crowns in preparing this document was limited to holding meetings with the crowns to determine the current state of their performance measurement system and how they were using whatever performance data they were collecting.

In the annual Mandate and Strategy Reviews/Corporate Performance Reports, Council comments on whether the designated crowns have a performance measurement and reporting framework that is consistent with the best practices recommended in Council's April 2001 document, *Corporate Performance Measurement and Reporting*. As noted earlier, these annual reviews are forwarded by Council to the Minister of Finance and the Minister responsible for the crown in question. As well, Council advises crowns on its assessment of each crown's performance measurement system relative to Council's guidelines.

On an on-going basis, Council responds to individual requests from the designated crowns for assistance in the area of performance measurement by directing them to specific examples of how other entities have applied the recommendations on performance measurement and reporting and by putting them in touch with staff in another crown or other organization whose performance measurement system is further along in its evolution.

Conclusion

- *Overall Council has directed resources to meeting its mandate under clause 6(1)(b) of The Act. However, as we noted in a report to the Legislative Assembly in December 2002, Performance Reporting in Annual Reports: Current Practices Among Crown Entities, performance reporting by crown organizations in the Manitoba public sector requires significant*

strengthening. This represents an opportunity for Council to strengthen its support to designated crowns as they strive to improve their performance reporting. This could include developing and implementing a strategy of on-going initiatives to promote performance measurement by designated crowns, and the development, in consultation with crowns, of a set of common performance indicators. Given that Council was created in response to issues within the crowns such as their financial position and planning, public accountability and transparency, we believe there should be some common indicators by which designated crowns can both track and publicly report on their performance. Collectively, undertakings such as these would not only contribute to Council taking a broader facilitation role in encouraging effective implementation of performance measurement and reporting, but would also enhance the ability of legislators, citizens, and Council to assess the performance of crowns. Moreover, Council could utilize the information from improved performance reports to inform the process for setting its own priorities in working with designated crowns.

2.3 CONSISTENT PRACTICES

(in areas other than performance measurement)

The Act requires Council to *"ensure consistent practices among two or more corporations where appropriate"*. [Clause 6(1)(c)] While other sections of the legislation direct Council to undertake its activities in co-operation with designated crowns, in regard to consistent practices, the legislation is silent on the matter of facilitation.

Findings

Council is given the authority under The Act to make a determination as to whether it is appropriate for any two or more designated crowns to follow certain practices in common.

In a report produced by Council entitled "*Consistent Practices Review – Crown Corporations*", May 2001, Council sets out the following information with respect to ensuring consistent practices:

- as designated crowns adopted compatible policies and corporate governance practices improved, Council discontinued its policy co-ordination approach. This approach had resulted in the production of a policy manual which set out guidance on a number of governance and administrative practices.
- Council monitors designated crowns as warranted to ensure that appropriate policies are in place. For instance, according to Council's 2003 – 2005 Multiyear Plan, in 2003 it will conduct a consistent practices review in the area of risk management and mitigation within the designated crowns and in 2004 it will undertake a consistent practices review in the area of accountability and governance.
- Council's current approach is to encourage crowns to seek out best industry performers and business practices, benchmark performance where applicable, and determine if these practices could be cost-effectively incorporated into operations.

Council conducted a review of certain practices for consistency in 2000 and 2001. The first review considered the areas of: leased vehicles, travel, entertainment, community support, donations and corporate sponsorship. The second considered areas such as: purchasing, disposal of fixed and moveable assets, incentive compensation, and employment equity. The reviews were conducted by asking the designated crowns to provide Council with their policies in those areas, comparing these to the government's General Manual of Administration and various statutes as appropriate. Both reviews concluded that, generally, the stated practices of the designated crowns were consistent with Government policy.

Conclusions

- *Overall Council has provided a useful service to government and the designated crowns by:*
  - *preparing comparative information on the stated policies/procedures within each designated crown;*
  - *encouraging designated crowns to follow best practices in areas such as governance, planning and management; and*
  - *providing designated crowns with assistance in sharing with them examples of various best practices.*
- *Council has interpreted its role with respect to ensuring consistent practices to mean encouraging the designated crowns to adopt best industry practices within their sector and providing them with information on current policy procedures among the designated crowns. Another potential interpretation of The Act is that Council could develop guidelines on consistent practices and have a strategy for monitoring that actual practices within the designated crowns are consistent with Council's guidance.*

2.4 REVIEW OF CAPITAL EXPENDITURES

The Act requires Council to review the capital expenditure proposals of corporations. [Clause 6(1)(c)]

Findings

Council undertakes an annual analysis of the capital expenditure proposals of each of the designated crowns under its purview. The analysis considers a designated crown's: mandate, its corporate strategies, the impact on the financial condition of the crown, the impact on the crown's ability to achieve its financial goals and objectives, the relationship between the expenditures and corporate performance objectives, and Government policy direction. Council also determines whether the proposed capital expenditures will affect the risk assessment rating which Council has for each designated crown.

The analysis is written up in a report which includes recommendations when necessary. Council shares its report with the designated crowns and the Minister of Finance. Apart from communicating with the designated crowns in writing about its analysis of their

capital expenditure proposals, Council also discusses with the administration of the designated crowns and if need be, with the Chair/members of a crown board, any issues it may have regarding the proposed capital expenditures.

Conclusion

- *Overall, Council has directed its resources to meeting its mandate in relation to the review of capital expenditure.*

2.5 RELATIONSHIP BUILDING

In the area of relationship building, we reviewed the following:

2.5.1 opportunities for two-way dialogue;
2.5.2 awareness of client and stakeholder needs and emerging issues; and
2.5.3 determining client and stakeholder satisfaction.

2.5.1 Opportunities For Two-Way Dialogue

Findings

The Board chair advised that he has access to the Minister of Finance to be able to discuss or advise him of various issues and that the two of them meet regularly. Council's CEO advised that he meets at least once a year with the Minister of Finance to brief him and hear the Minister's perspective on any issues, concerns or priorities that require Council's attention. As well, the CEO indicated that he meets at least annually with each of the ministers responsible for each of the crowns under Council's purview.

Each year Council does a Mandate and Strategy Review/Corporate Performance Report of each designated crown corporation. Once Council's Board has approved the scope of that review, it is shared by Council's management with the crown corporation in question which is given an opportunity to comment on the scope of the review. We were advised by Council's staff that while the input of the designated crowns cannot result in deleting aspects of the scope to be covered (because the Board has approved it), minor adjustments that do not affect the intent of the scope can take place. As well, additional components can be incorporated into the review based on the feedback from the designated crown corporation. Once the review is completed, Council staff share their report with the designated crown to obtain their feedback with respect to factual accuracy, as well as any comments or concerns they want to raise.

After the Board approves the final version of the Mandate and Strategy Review/Corporate Performance Report, it is forwarded to the Board and CEO of the crown in question with an offer from Council to present and discuss the findings in the report. As well, the Minister of Finance receives a copy of the Mandate and Strategy Review/Corporate Performance Report. More recently (as of the Fall 2002), at the direction of the Minister of Finance, Council also provides a copy of the Mandate and Strategy Review/Corporate Performance Report to each of the ministers responsible for each of the designated crowns in question and the CEO meets with each of these ministers to brief them on the report.

In conducting their annual corporate performance reviews (i.e., the Mandate and Strategy Reviews/Corporate Performance Reports) and reviews of the capital expenditure proposals prepared by crowns, Council's professional staff are in touch with staff at the designated crowns on a regular basis to ensure they have their facts right. Council's professional staff advised that they provide the designated crowns with an early indication of their analysis and conclusions regarding the operations of the designated crowns or in relation to particular issues that Council is examining. Professional staff noted that they provide the designated crowns with the opportunity to present their point of view with evidence. Council's CEO and professional staff characterized their relationship with staff at the crowns as one in which there is constant dialogue and "no surprises" with respect to Council's position and perspective.

As an indication of the two-way dialogue, Council's CEO and professional staff indicated they have fostered an environment in which staff in the designated crowns feel free to seek advice or assistance from Council's professional staff. The Council Board members we interviewed also noted that the lines of communication between Council and the designated crowns flow both ways.

Conclusions

- *Council practices clear and on-going communication:*
  - *in its day to day contact with the designated crowns;*
  - *with the Minister of Finance;*
  - *regarding those activities that pertain to the annual corporate performance reviews and the capital expenditure proposal reviews that Council undertakes in relation to each designated crown; and*
  - *in responding to specific issues that relate to a particular designated crown.*
- *The legislation establishing Council states that Council is to carry out certain aspects of its mandate through "facilitation in co-operation with" the crowns. Council has interpreted its role in the area of facilitation to mean:*
  - *providing the designated crowns with an opportunity for feedback and discussion in relation to the observations and recommendations that Council makes in its annual reviews that it prepares on each of the crowns;*
  - *making sure that the designated crowns know about the projects that Council is working on that may affect them;*
  - *requesting the designated crowns to identify a contact within their organization who can answer questions that Council has; and*
  - *fostering trust to ensure co-operation by the designated crowns in responding to Council's information requests.*

  However, another potential interpretation is that facilitation should also include seeking input from the crowns with respect to the criteria that Council will use to determine whether the designated crowns have: clear mandates and statements of purpose; and consistent and effective criteria for measuring the performance of the crowns. Seeking such input from the designated crowns could contribute to relationship building between Council and the designated crowns.

2.5.2 Awareness of Client And Stakeholder Needs And Emerging Issues

Findings

Council's CEO and professional staff advised that they maintain current knowledge on issues and trends in the sectors affecting each of the designated crowns under their mandate through their on-going research. As well, they try to keep Board members current on sectoral trends by including briefs on topical issues in Board meeting agenda material.

Council's CEO and professional staff maintain their understanding of government needs and issues as they pertain to the crown sector largely through meetings with ministers. The Chairman of Council and the Minister responsible both advised that they meet at regular intervals (at least two or three times a year or when an issue arises). As well, both the Chairman and the Minister responsible indicated that they contact each other when either of them has an issue to discuss. In October 2002, the Board invited the Minister responsible for Council to attend a meeting to discuss potential future directions of Council and what the Minister/government would like Council's future directions to be. The CEO of Council advised that he meets at least annually with each of the ministers responsible for the crowns under Council's purview.

Based on their interactions with ministers, the understanding of Council's CEO and professional staff is that government essentially looks to Council to:

- provide them with an indication of the health of the designated crowns in terms of how well they are doing in planning, governance, and finances;
- flag emerging concerns before they become serious problems; and
- provide advice and analysis as requested (from time to time Council is asked by Government to provide its analysis on various issues).

With respect to their stakeholders (the designated crowns), the Board meets annually with the chair and CEO of each crown. According to Council's CEO, this offers the designated crowns with an opportunity to raise any issues or concerns they have with Council, and to identify areas where they would like assistance from Council. As well, Council staff have on-going contact with the designated crowns thereby affording them an opportunity to be knowledgeable about the crowns' operations.

When asked about their perception of what their stakeholders (the designated crowns) need from Council, management and professional staff identified the following:

- not to misuse the information – i.e., properly understanding information provided by the designated crowns in order to avoid erroneous conclusions that mislead the Board and Government;
- up-front and early communication from Council to the designated crowns with respect to the conclusions that Council is formulating in relation to the practices, procedures or performance of a crown corporation – i.e., designated crowns want an opportunity to discuss whatever views/ conclusions Council is inclined to make concerning them; and
- being a resource to the designated crowns when they want assistance with matters to do with governance, planning, performance measurement, and best practices in management, etc.

Council indicated that it responds to its stakeholder needs through its willingness to discuss and debate differences of opinion and interpretation in order to arrive at a resolution that reduces or eliminates whatever concerns have been identified by Council. Interviews with Board members and Council's management and professional staff highlighted that Council wishes to be perceived by designated crowns as a resources and a helper. To that end, Council's management and professional staff share their knowledge and information on best practices in governance, planning, performance measurement and management with the designated crowns. Council responds to requests for guidance in particular areas by linking up the designated crowns seeking the assistance with another crown that can help or alternatively with another entity or consultant.

There are instances where Council is not as informed as it would like to be on major activities taking place within the designated crowns. Council advised us that there are instances in which designated crowns do not wish to share information and that, sometimes, designated crowns are of the view that Council should not be involved in their policy decisions. Council advised us of its belief that in order for it to effectively fulfill its responsibilities of assessing the performance of crowns, identifying capital cost implications, long term debt implications, and risk issues within crowns, it needs to be well informed about major undertakings being contemplated, even when they are at the early stages of consideration.

Council uses its awareness and understanding of the operations and performance of designated crowns to provide government with annual written reviews on the performance of each designated crown. Council advised that it regularly brings to the attention of various ministers issues that it considers to be a risk. As well, Council indicated that it uses its knowledge of industry trends that relate to the crowns under its purview when providing advice and analysis to the designated crowns and Government. Council explained that this advice and analysis is shared through various means including: written communication; meetings with ministers, crown boards/management; and participation on special committees of government departments/central government.

Conclusions

- *Overall, Council strives to be aware of the needs and issues of Government and the designated crowns, and uses this knowledge in meaningful ways in fulfillment of its mandate.*
- *Instances in which Council experiences difficulty in accessing critical or policy-oriented information from designated crowns pose a risk to Council in fulfilling one of its central functions - that of providing an early warning signal to both Government and the designated crowns regarding risks and potential problems that could ensue if certain practices within those crowns are pursued or are left unattended.*

2.5.3 Determining Client And Stakeholder Satisfaction

Findings

As indicated earlier, the chair of Council's Board advised that he has regular contact with the Minister of Finance. Council's CEO indicated that he meets on at least an annual basis individually with each of the ministers responsible for each of the designated crowns.

With respect to the designated crowns, as indicated earlier, annually, the board Chair and CEO of each of these crowns meet with Council's Board. At this meeting, designated crowns make a presentation to Council's Board on its operations. We were advised that at this meeting, Council's Board takes the opportunity to ask the representatives of the designated crown whether there is anything further that they feel Council can do to assist them. According to Council, this is an opportunity for annual feedback from stakeholders with respect to anything they want Council to do differently or more of, etc. Council told us that the response from the smaller designated crowns is generally one of appreciation because they see Council as a resource that assists them in the areas of planning, governance, performance measurement, and risk management. Council noted that due to their size, the smaller designated crowns under Council have limited in-house expertise. As for the larger designated crowns, we were advised by Council that their feedback at annual meeting is neutral, partly because they have in-house expertise, and partly because they feel that they have several other bodies to which they are accountable – namely, the Public Utilities Board, the Public Utilities Committee of the Legislature, and their minister.

When Council's Board members were asked whether the designated crowns value Council, they indicated that ultimately they did not know for sure but that their impression is that the designated crowns are satisfied with Council. They base this impression on having positive interactions with crown board members during their annual meeting with them and the fact that some of the designated crowns seek out Council's assistance and advice.

Council's CEO and professional staff is of the view that the on-going contact with its client and stakeholders enables them to stay aware of any issues pertaining to client and stakeholder satisfaction.

Conclusion

- *Council has maintained on-going contact with its client and stakeholders. Nevertheless, Council could enhance its awareness of the level of client and stakeholder satisfaction by periodically gathering evidence through a more formalized survey or interview process.*

2.6 OTHER COMMENTS FROM COUNCIL

COUNCIL'S COMMENTS ON CONTRIBUTIONS TO THE OPERATIONS OF CROWNS

Strengthened Accountability and Crown Sector Performance

1999 marked the 10th year since Council's inception. The enabling legislation, The Crown Corporations Public Review and Accountability Act, received Royal assent in December 1988 and Council was incorporated June 5, 1989.

The Act intended to enhance accountability through establishing governing provisions for Corporations subject to the Act. An accountability framework was set out that encompasses the Crowns' Boards of Directors, the Ministers responsible, the Manitoba Legislature and the Public Utilities Board.

Manitoba Crown corporations under Council's purview operate in a variety of environments. In some instances, Crowns conduct business as both monopoly providers and market competitors. As instruments of Government policies, the Boards and management must balance public policy objectives with prudent commercial operating performance. The overreaching goal is to optimize public resources for the benefit of all stakeholders.

The Act established a number of provisions in such areas as duties and powers of Boards of Directors, required sub-committees of Boards, annual and quarterly financial reporting, periodic reviews of strategic plans, corporate performance and public accountability. Rates for services provided by Manitoba Hydro and Manitoba Public Insurance are required to be reviewed and approved by the Public Utilities Board.

Crowns such as Manitoba Hydro, Manitoba Public Insurance and the Manitoba Liquor Control Commission are required to hold public accountability meetings at least once a year in Winnipeg, northern Manitoba and one other centre. These meetings provide the public with an opportunity to gain a better understanding of each corporation's objectives, programs and services, and to discuss issues with senior management.

The portfolio of Crowns subject to the Act has changed considerably over the years. A number of Crowns were divested throughout the period, the most notable being the Manitoba Telephone System in 1997. The Manitoba Lotteries Corporation became subject to the Act in 1991.

The Manitoba Agricultural Credit Corporation and Manitoba Crop Insurance Corporation came under Council's purview in 1997. Council discontinued its monitoring of these Crowns during 2000. In February 2001 Manitoba Centennial Centre Corporation was placed under Council's purview. The Centennial Centre manages the Centennial Centre complex in Winnipeg.

Council's role within the accountability framework has been one of facilitating, reviewing, monitoring and providing Government, through

Council's Minister responsible, advice on any matter affecting the Crowns that may be requested.

Council's mandate has not changed during the ten years, though our focus throughout the period has shifted in accordance with Crowns' ongoing responses to changing environments, importance of topical issues and factors influencing mandates and purpose.

Activities have included, on an ongoing basis, reviewing each Crown's mandate and statement of purpose, corporate governance frameworks and practices, strategic plans, annual capital expenditure plans and corporate performance measurement.

In 1993, Council incorporated into its activities an assessment of the business risks facing each Crown. Overall, risk is classified as Low, Medium, High with corresponding risk trends of Positive, Stable or Negative based on positive and negative factors identified. This assessment assisted in identifying and monitoring the risks and opportunities that may affect a Crown's ability to achieve its objectives and sustain its success.

Since adoption, the risk assessments have changed in accordance with increased or decreased risks arising from changing business environments and Crowns' responses to managing the risks by adopting appropriate strategies and plans.

The overall financial position of the Crowns that remain, or have been added since inception has strengthened over the period. Total assets have grown from $5.0 billion in 1989 to over $9.0 billion in 1999.

	Assets	
Crown Corporations ($ millions)	**1999**	**1989**
Manitoba Hydro	$7,865.9	$4,385.7
Manitoba Public Insurance	1,187.5	626.4
Manitoba Liquor Control Commission	26.9	16.0
Communities Economic Development Fund	22.7	7.8
Venture Manitoba Tours Ltd.	4.8	2.8
		1991
Manitoba Lotteries Corporation	127.0	17.9
		1997
Manitoba Agricultural Credit Corporation	248.0	201.2
Manitoba Crop Insurance Corporation	200.5	79.8
Total	$9,683.3	$5,337.6

Crown Corporations ($ millions)	Net Income/(Loss) 1999	1989
Manitoba Hydro	$100.1	$(26.4)
Manitoba Public Insurance	38.3	30.4
Manitoba Liquor Control Commission	151.7	150.2
Communities Economic Development Fund[1]	(2.0)	(1.4)
Venture Manitoba Tours Ltd.	.2	(.1)
		1991
Manitoba Lotteries Corporation	225.0	61.2
		1997
Manitoba Agricultural Credit Corporation[1]	(7.4)	(6.1)
Manitoba Crop Insurance Corporation	67.1	54.9
Total	$573.0	$262.7

[1] Requires annual operating subsidies or grant from the Manitoba

Manitoba Hydro, Manitoba Lotteries Corporation and Venture Manitoba Tours Ltd have demonstrated the most notable growth in net income over the last ten years.

Council also examines, as part of its mandate, submissions or complaints from individuals regarding alleged failure by a Crown to comply with any applicable legislation or policy. Over the ten year period three such complaints have been received directly by Council and investigated.

Council's Contribution to Strengthened Accountability and Crown Sector Performance

One of the major undertakings during 2000 was completion of Council's "Ten Year Retrospective," a self-assessment similar to processes followed in assessing the mandates, strategies and corporate performance of Crown corporations. This provided Council and Minister the opportunity to review both the activities and achievements of Council since inception.

On balance that review indicates that Council has fulfilled its mandate as set out in the enabling legislation.

Since inception, Council has focused on enhancing and monitoring public accountability of the Crowns' commercial and public policy goals and objectives. At the time Council was established the environment within the Crown corporation sector included:

- *significant Crown sector losses;*
- *poor financial position and poor planning;*
- *Crowns operating without clear mandates;*
- *lack of public accountability;*
- *lack of scrutiny of rates for service; and*
- *an increasing loss of public confidence in the operations of Crowns.*

The Crown Corporations Public Review and Accountability Act's governance provisions were intended to address these conditions. There has been notable improved performance of the Crowns in addressing these circumstances.

Council's organizational and operational emphasis has focused on enhancing and monitoring public accountability of the various Crown corporations. In this context Council's mission, resources and activities are focused on accomplishing the mandated objectives set out in the Act.

Council is satisfied that mandated objectives have been achieved and that its public accountability mandate remains relevant. Importantly for Government and citizens of Manitoba, Crown sector performance has improved over the period since establishment of the Council.

In pursuit of Council's mandate reliance is made on Crown corporation cooperation to secure information supporting corporate strategies and decisions and performance information in a timely manner. This approach has generally been successful, but not always effective.

While there have been improvements in governance, planning, performance and accountability, there remain opportunities for continued improvement.

COUNCIL'S COMMENTS ON FINDINGS AND CONCLUSIONS

MANDATE AND PURPOSE OF CROWNS

Clarity of Mandates and Statements of Purpose

Council is taking a broader look at the Crowns which enables consideration of goals that are applicable to one or more Crowns, required financial results, appropriate mandates and actions, relevancy, trends in society, government policy and intended results, all within a framework of cost and productivity.

Council's key issue remains the appropriateness of each Crown's mandate and strategy. Mandate changes are expressed either by Government policy statements or new legislative authorities. The Crowns' ongoing responses to changes in markets, customer requirements or external opportunities may modify the strategy. These factors require that Council monitor and review the mandate and strategy of the Crown corporations.

Annual reviews are undertaken on all Crowns under Council's purview. During 2002, the following opportunities for mandate and policy clarification were identified:

Manitoba Hydro

- *Manitoba Hydro's (Hydro) 2002/03 corporate strategic plan includes a key strategy to review its current statutory mandate related to the natural gas business. Discussions with the Province on policy and mandate options are being undertaken.*

- *Hydro has advised that at an appropriate time, Council will be consulted for commentary regarding Hydro's proposed statutory mandate.*

- *In addition, Council developed a risk profile of what we consider key risks specific to Hydro. This profile is intended to assist and guide Council and the Province as shareholder in oversight, public policy implications, and Ministerial responsibilities.*

Manitoba Public Insurance

- *Council believes it important that Manitoba Public Insurance (MPI) and Government assess practical, sustainable and transparent actions that clarify public policy imperatives where these might conflict with rate setting considerations and processes.*

- *Little has been done to modernize MPI's legislated financial, administrative and regulatory environment. In the context of current environmental factors which influence MPI's operations, we believe it timely and appropriate that MPI and Government initiate a comprehensive review of MPI's governing legislative frameworks.*

Manitoba Centennial Centre Corporation (MCCC)

- *The MCCC Board should initiate a review of its legislation and propose changes for Government consideration that enhance mandate clarity, modernize commercial and administrative practices and enhance governance and accountability practices.*

Corporate Governance

The challenge that faces Council is the ability to continue to add value to the processes that are in place at the Crown corporations. An immediate area that Council can influence and support is governance training and orientation for the Chairs and Directors of the Crown corporations. Emphasis on roles, responsibilities and understanding challenges that face Crown corporation boards in today's environment is critical to sustaining Crown sector successes.

Council annually reviews Crown Corporation plans and governance with a view to facilitating corporate effectiveness in accordance with specific corporate mandates. This process continues to focus on key business strategies while allowing management to operate within guidelines approved by the respective Boards.

Throughout 2000 Council provided governance orientation sessions for several Crown corporation Boards of Directors. These included Manitoba Hydro, Manitoba Liquor Control Commission, Manitoba Public Insurance, Communities Economic Development Fund and Manitoba Agricultural Credit Corporation.

These sessions focused on assisting Directors in understanding their governance role, responsibilities and requirements set out in The Crown Corporations Public Review and Accountability Act.

In addition, Council sponsored a forum held as part of the Manitoba Annual Forum of the Institute of Public Administration of Canada. The Governance with Foresight Forum included a workshop and a session, which focused specifically on Crown corporation governance. "Learning About Risk in the Boardroom" provided participants with perspectives on addressing risk through a case review of governance and risk management that arose concerning a British Columbia Ferry Corporation major capital project.

The session provided insight on governance of Saskatchewan's Crown corporations. The Forum's discussion on performance measurement and reporting assisted in understanding the link between measurement and reporting to strategic direction and public policy objectives.

In 2001, Council coordinated a governance training seminar for Crown corporation Board members and senior management. The seminar was conducted by David Brown of The Conference Board of Canada and covered topics such as the shareholder/Board relationship, role of the Board and senior management and Board functions, independence and development.

CONSISTENT AND EFFECTIVE MEASUREMENT OF PERFORMANCE

Corporate Performance Measurement and Reporting

Council is required as part of its mandate and corporate strategy, to ensure that Crowns under its purview monitor progress against plans and measure performance through consistent and effective criteria.

A key initiative of Council during 1998 was to discuss improved means by which the Crowns, and Council, can monitor overall effectiveness of the Crowns' performance. Within this context, Council will assist and facilitate individual Crown corporations to develop measures that will reflect:

- *customer service satisfaction;*
- *corporate capability to improve and innovate;*
- *value for corporate stakeholders; and*
- *efficiency and effectiveness in business operations.*

Crowns are responding in identifying key financial and non-financial performance indicators. The development and adoption of a broader range of performance measures reflects the continuing efforts of Crown Boards and management to strengthen governance and accountability.

During 2001 Council completed a "best practice" report on Corporate Performance and Measurement Reporting of Crowns. That report outlines specific criteria that can be used to assess achievement in the various areas identified. The fundamental purpose of this report was to focus attention on key business strategies and processes while allowing management freedom to operate within Board approved guidelines.

Council developed a matrix of key components critical to an effective, functional and valuable corporate performance measurement and reporting system based on best practices. The components formed a framework upon which each selected Crown's existing measurement and reporting was assessed.

The components comprise the key findings for best practices and consequently encompass the overall recommendation that Crown corporations should consider. Flexibility is given to the unique business and corporate environments to which each Crown is subject. While there is not one best framework for all corporations, the key components provide a guideline for the Crowns to consider in customizing a system to their own distinctive needs.

Members of Council approved the framework of components as the consistent and effective criteria that Crowns should consider adopting and that will be used to assess each Crown. Council staff facilitated the adoption of the criteria by presentations to Boards of Directors and shared the study with each Crown.

CONSISTENT PRACTICES

During 2000 Council reviewed the policies and practices among Crown corporations in areas of leased vehicles, travel, entertainment, community support, donations and corporate sponsorship. While the review determined that there were no policy issues that warranted specific remedial attention, there is an opportunity to improve understanding of policy development and the approval process.

In general the policies and stated procedures for the above noted areas are comparable to Government policy outlined in the Province's General Manual of Administration (GMA). The GMA, which is authorized by Manitoba's Treasury Board, indicates that it does not generally apply directly to Crown corporations on the noted expenditures. An exception is noted for travel and related expenses. The GMA states that, although sections are not applicable to corporations having their own executive management, the corporations should be guided by the GMA's contents and apply the material, where practical, within their organization. Treasury Board places an expectation upon the Crowns that development of policy should consider the direction that departments and agencies of the Provincial Government must follow.

Differences between Crown corporation policies and the GMA are typically related to the nature of Crown business but are not materially different from policies followed by Government Departments.

The review determined there were no policy issues that warranted specific remedial attention at that time. Absent "ideal" policies covering the matters reviewed they should be subject to periodic review and oversight to ensure consistency with Government policy. There is opportunity to improve understanding of the policy development and approval processes

of Crown boards in the subject areas. Further, there is opportunity to improve management accountability to Boards for policy compliance.

Council focuses on consistent practices in the primary areas of governance, planning, and risk management and mitigation. During 2002, our reviews found that overall the Crowns have appropriate governance and risk management processes and practices in place that are based on best practices. Opportunities for improvement were identified and communicated.

RELATIONSHIP BUILDING

Client Satisfaction

Council defines its primary client as the Minister responsible for the Council and representative Ministers responsible for the Crowns under Council's purview. Satisfaction with achieving our mandate is reflected in feedback we receive on the results of our reviews and advice provided.

Council's Performance Measurement Framework

During the past year (2002) the Council continued to pursue its statutory mission of facilitating the activities of various Crown corporations with particular emphasis on governance and performance measurement. In this context Council reviewed its own governance practices, processes and reporting. It is this governance model that has formed the basis for our current reporting structure.

Council formally adopted the Policy Governance (Carver) model as the foundation for Board policies. These policies form the basis for our performance reporting. Our 2002 Annual Report reflects changes in our performance reporting in response to observations made by Manitoba's Auditor General during their review of performance reporting in Crown entities' annual reports. The Auditor General's overall observation was: "In order to meet the attributes of appropriate performance information reporting, changes would need to be made to the annual report." Council supports the Auditor General's effort to improve performance information reporting to the Legislature and public in annual reports. It is generally aligned with our efforts to improve performance reporting among Crowns under Council's purview.

Council undertakes performance measurement and reporting of its outcomes within the limits of its staffing capacity and financial resources. Performance measurement and reporting on Council's desired outcomes will continue to evolve within the parameters of efficiency and resource constraints. Council operates with a small team of five full time staff, of which two members are professional staff and two members are administrative support.

Our mandate is one of facilitation, which we define as actions that would assist Crowns or make it easier for them to meet their obligations under

the Act. It is an on-going process and co-dependent on actions of other organizations involved. Measuring our desired outcomes in a meaningful way lends itself to a more qualitative approach.

The following provides a summary of key actions completed in 2002 to meet our desired outcomes as outlined in Council Board policies:

Desired Outcomes	***Actions Completed***
Contribute to clear mandate and purpose of Crown corporations under Council's purview.	*Assessments completed for each Crown and any opportunities to improve were identified and communicated.*
Contribute to the development of consistent and effective criteria for measuring Crown's performance.	*Assessment and facilitation work undertaken for each Crown under Council purview.*
Review corporate plans and capital expenditures plans.	*Annual review completed for each Crown.*
Contribute to consistent practices among two or more Crowns where appropriate.	*Continued to identify opportunities through on-going work and communicated best practices among Crowns.*

Part 3: Learnings for Other Organizations

Based on our research for this review, we identified a number of guiding practices for organizations whose functions include monitoring, providing advice, and making recommendations. These are presented in **Figure 2**.

FIGURE 2

Guiding Practices

Corporate Goals/Outcomes are the foundation of an organization - they should drive an organization's strategies, activities and performance measurement.

Risk Management should be an integral part of an organization's planning framework regardless of how small the size of the organization.

Comprehensive Performance Reviews should be undertaken at least once every five years in addition to an annual update of a strategic/business plan. It is important that every organization periodically step back and conduct a broad assessment of what the organization has achieved relative to its expected outcomes and determine the long-term direction that the organization believes it should take.

Continuous Improvement and Learning should be the mind set that is cultivated within an organization as a way to foster support for monitoring effectiveness, identifying areas that need strengthening and implementing the necessary changes.

Phase-In Plans should be developed where it is not possible to deliver on all aspects of a mandate from the outset. Monitoring of plan implementation should be accompanied by periodic updating of the plan to reflect progress in implementation of a mandate.

Guidelines for Conducting Advisory Responsibilities should be developed to ensure that the organization uses a standardized/uniform approach to conducting various aspects of its work. Those who are impacted by the work of the organization should be provided with the guidelines that the organization uses in undertaking its examinations/assessments and decision-making.

Consultation of Clients and Stakeholders should be a feature of how the organization conducts itself. This should include consultation on matters such as: approaches that the organization proposes to take in delivering its mandate; the guidelines/criteria it will use to assess the work or proposals of other entities (including, for instance, funding/grant requests); and its comprehensive performance reviews.

Source: Office of the Auditor General

Appendix 1 MAIN ASSESSMENT CRITERIA

Key Area	Main Assessment Criteria
Mandate and Purpose of Crowns (Section 2.1 of the Report)	• That Council has recommended to the designated crowns appropriate criteria on the attributes of a clear mandate and statement of purpose. • That Council assesses whether each designated crown has a clear mandate and statement of purpose in relation to Council's criteria. • That Council communicates to the Minister responsible and/or the Lieutenant Governor in Council (L.G. in C.) on the status of the clarity of mandates and statements of purpose developed by the designated crowns.
Consistent and Effective Measurement of Performance (Section 2.2 of the Report)	• That Council has recommended to the designated crowns appropriate guidelines on effective criteria for measuring performance. • That Council has recommended an appropriate set of common performance indicators that the designated crowns should publicly report on. • That Council monitors for compliance with its recommended guidelines on consistent and effective criteria for measuring performance. • That Council communicates to the Minister responsible and/or the L.G. in C. on the status of consistent and effective measurement of performance among the designated crowns. • That Council undertakes on-going initiatives to encourage and promote the use of effective performance measures by designated crowns.
Consistent Practices (Section 2.3 of the Report)	• That Council has recommended to the designated crowns appropriate guidelines on consistent practices between crown corporations. • That Council monitors for consistency of practices in relation to its guidelines. • That Council advises the Minister responsible and/or the L.G. in C. on the status of the consistency of practices among designated crowns.
Review of Capital Expenditures (Section 2.4 of the Report)	• That Council has developed appropriate criteria for reviewing the viability of capital expenditure proposals from designated crowns. • That Council uses its review criteria for assessing the capital expenditure proposals submitted to it by the designated crowns. • That Council advises the Minister responsible and/or the L.G. in C. of issues it has with any designated crown's capital expenditure proposals.
Relationship Building (Section 2.5 of the Report)	• That Council communicates clearly and on an on-going basis with the designated crowns and Government. • That Council is aware of its client and stakeholder needs and reflects these in its work. • That Council is aware of the level of satisfaction that its client and stakeholders have with its performance.
Strategic Planning and Management Executive Summary	• That Council implements generally accepted practices of good planning and management.

OVERSIGHT OF CROWN ENTITIES ACROSS CANADIAN JURISDICTIONS

Appendix 2

Jurisdiction	Responsibility for Oversight of Crowns
Canada	**Crown Corporation Policy and Information Division** The Division is a branch within the Federal Treasury Board Secretariat. **Mandate** Main duties include: • Providing guidance on the governance, control and accountability of Crowns; • Monitoring of crowns with respect to compliance with legislation and government policies, and performance; • Issuing guidelines, e.g., on performance measurement; and • Issuing directives, e.g., on annual report content.
British Columbia	**Crown Agencies Secretariat (CAS)** CAS is part of the Office of the Premier. **Mandate** Main duties include: • Providing guidance on the governance, control and accountability of Crowns; and • Monitoring of crowns with respect to compliance with legislation and government policies, and performance.
Alberta	Alberta does not have a single body that oversees crown entities. Crowns are assigned to a minister and included in ministry business plan and budget estimates.
Saskatchewan	**Crown Investments Corporation (CIC)** CIC is part of the Office of the Premier. **Mandate** Main duties include: • Establishing the strategic direction for the crowns; • Giving policy direction to the crowns; • Developing and implementing a crown performance management system; • Managing a portfolio of commercially viable investments; and • Enhancing Saskatchewan's long-term economic growth and diversification through investments and crowns. **Board Composition** CIC board consists of Cabinet Ministers.
Manitoba	**Crown Corporations Council (CCC)** The CCC oversees seven designated crown corporations. (This is not the total number of crowns in Manitoba.) **Mandate** Main duties include: • Monitoring and providing independent advice to the Manitoba Government and boards of directors of each designated crown; • Reviewing designated crown mandates, mission statements, strategic and capital plans, planning processes, emerging strategic issues, corporate performance and governance practices; • Facilitating the development of consistent and effective criteria for measuring crown performance; • Examining complaints from individuals regarding alleged failure by a designated crown to comply with applicable legislation or policies. **Board Composition** Legislation prescribes who the Lieutenant Governor in Council may appoint. Appointees must have professional or technical expertise in business management. No Cabinet Ministers or Government officials can sit on the board.

Appendix 2
(cont'd.)

Jurisdiction	Responsibility for Oversight of Crowns
Ontario	**Management Board Secretariat** (equivalent to Treasury Board) Corporate Policy Branch is responsible for the establishment and Corporate Policy accountability of Agencies, Boards and Commissions (ABCs). **Mandate** Main duties include: • Issuing directives, e.g., minimum requirements of business plans Management Board (which must have performance measures and targets and these plans Secretariat require ministerial approval), and minimum requirements for annual report content.
Quebec	• No single organization has responsibility for crowns. They are each assigned to a minister who is accountable to the Legislative Assembly for the crowns in his/her portfolio. • The "Loi de l'administration publique" sets out minimum reporting requirements and states that the Treasury Board can establish additional requirements. • While the legislation applies to crowns, financially independent crowns are not required to conform to the reporting requirements under the legislation (Hydro Quebec, Lotto Quebec, la Societe des alcools du Quebec, the Caisse de depot des placements du Quebec are exempt).
Nova Scotia	**Treasury and Policy Board** Work related to performance reporting (including reporting by crowns) is distributed among the policy analysts in Treasury Board, i.e., there is no unit within Treasury Board that is specifically assigned duties pertaining to crowns. **Mandate** Main duties of Treasury Board in relation to crowns include: • Producing guidelines on accountability reporting; • Reviewing accountability reports prepared by crowns (equivalent of annual reports); and • Leading a "continuous improvement" process for business planning and accountability reporting.
New Brunswick	No single organization has responsibility for crowns. They are each assigned to a minister who is accountable to the Legislative Assembly for the crowns in his/her portfolio.
Prince Edward Island	No single organization has responsibility for crowns. They are each assigned to a minister who is accountable to the Legislative Assembly for the crowns in his/her portfolio.
Newfoundland	No single organization has responsibility for crowns. They are assigned to a minister who is accountable to the Legislative Assembly for the crowns in his/her portfolio.

COMPLIANCE AUDITS

This section of the report contains a consolidation of our work conducted in a number of areas that are summarized below. Our work on Municipal Financial Reporting and on Financial Reporting Standards for Northern Community Councils provided strong recommendations, consistent with our on-going efforts to ensure that financial statements produced for citizens of Manitoba are compiled in accordance with generally accepted accounting standards.

Family Services and Housing Child Protection and Support Services

Our work addressed grant accountability of Child Care Treatment Centres which receive annual funding from the Child Protection and Support Services Branch of the Department of Family Services and Housing (the Department). We concluded that the Department should be performing additional work in controlling the awarding and monitoring of grants. Better documentation around funding decisions, and the establishment of service purchase agreements (SPAs), as required by Department internal policy, were recommended.

A Review of the Student Records Section of the Professional Certification and Student Records Unit

This review focussed on determining whether student mark records were being accurately and completely collected by the Province as received from School Divisions in Manitoba. We found that there were improvements needed in the collection and accumulation of accurate and complete mark information. Subsequent to our review, an integrated student records system was implemented that the Department has indicated will address our recommendations.

Northern Manitoba Community Councils' Financial Reporting Standards

Our objective was to assess the financial reporting standards required by the Department of Aboriginal and Northern Affairs (Department) for Northern Manitoba Community Councils (Councils). For the period reviewed, the Department was not requiring compilation of financial statements in accordance with generally accepted accounting standards and Councils were not in all cases, meeting the Department's existing financial reporting standards. We provided a number of recommendations. The Department has implemented changes regarding Community Councils' financial reporting standards effective for the fiscal year ended March 31, 2003.

University of Winnipeg Financial Review

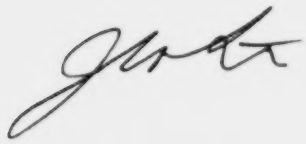
Our objective was to review the contributing factors leading to the University of Winnipeg's accumulated deficit as at March 31, 2001 and to formulate a report that could provide a common understanding of those factors for the University of Winnipeg, its Audit Committee, its Board of Regents, and the Council of Post Secondary Education. We provided a number of conclusions based on our review and resultant recommendations to which the University responded and acted on positively.

Hudson's Bay Company (HBC) Archives Review

Our office worked with an auditor from HBC to determine if the Archives of Manitoba, with respect to the Hudson's Bay Company Archives, was in compliance with the conditions of the 1993 donation agreement between the Province of Manitoba and HBC. We concluded that the Archives of Manitoba, with respect to Archives operations, was operating in compliance with the agreement.

Follow-up on the Review of Municipal Financial Accounting and Reporting Standards in Manitoba

In October 2002, we issued the *Review of Municipal Financial Accounting and Reporting Standards in Manitoba*. This original report detailed our findings, conclusions and recommendations regarding our review of municipal financial accounting and reporting requirements in Manitoba. A significant recommendation from this report was for the Department of Intergovernmental Affairs to take actions that would lead to municipalities preparing annual financial statements in accordance with generally accepted accounting standards (GAAP) also referred to as Public Sector Accounting Board recommendations as per the Canadian Institute of Chartered Accountants (CICA). As at February 2004, municipality annual financial statements are not being prepared in accordance with GAAP, which in turn is contrary to Section 183(1) of The Municipal Act.



Jon W. Singleton, CA•CISA

FAMILY SERVICES AND HOUSING
CHILD PROTECTION AND SUPPORT SERVICES BRANCH

1.0 Introduction

The Child and Family Services Division of the Department of Family Services and Housing (Department) provides a range of social services to strengthen and support family unity, through the administration of programs such as the Child Protection and Support Services program. The Child Protection and Support Services Branch (Branch) is primarily responsible for administering The Child and Family Services Act (Act). The Act provides the authority for the Department to license and fund external service organizations and placement centres for children, including child care treatment centres, foster homes and group homes. The Department is responsible under the Act for providing administrative, program and funding support to these external agencies and placement centres.

Child Care Treatment Centres (CCTCs) are one type of external service organization licensed under the Act. CCTCs are responsible for delivering an array of residential and community based treatment services for children, adolescents and families in Manitoba, including:

- Sexual assault and abuse treatment;
- Family support services including family therapy and parent groups;
- Training services to high-need children, including work placement and life skills; and
- Community treatment centres which provide residential care for special needs children.

CCTCs are accountable to the Department for the funding they receive. As at March 31, 2002, there were four Centres being funded by the Department:

- Knowles Centre Inc.;
- MacDonald Youth Services;
- Marymound Inc.; and
- New Directions for Children, Youth and Families.

These CCTCs receive several different types of grant support, including:

- Central Support/Program grants -which fund financial and policy administration, program management, and special programs with specifically defined objectives;
- Residential Care Facility grants - which fund, using approved per diem rates, the direct costs of placing and caring for children in the child care treatment centres. These payments are based on the daily rates and occupancy levels, and vary with the number of beds and the needs classification of the children being cared for at the facility; and
- Residential Support Services grants - which facilitate additional support for specific high-needs children by funding additional child care worker support.

For the 2001/02 fiscal year, the four CCTCs funded by the Department received approval for grants in the following amounts:

- Central Support/Program Grants - $7,541,700
- Residential Care Facilities - $8,399,328
- Residential Support Services - $408,000

2.0 Review Objectives, Scope and Approach

The following detailed objectives were established for our review:

- To assess the adequacy of the Department's processes for awarding and distributing the grants to CCTCs.
- To assess the appropriateness of the Department's monitoring processes for ensuring that grants provided to CCTCs are being used for the intended purposes.

The purpose of our work was to review the grant accountability relationships between the four CCTCs and the Department. We assessed the appropriateness of the administrative policies and procedures governing the grants made by the Department to these CCTCs. We also assessed how effective the Department was in implementing and complying with these policies and procedures. Our work encompassed most of the different types of grant funding paid to CCTCs although we did not attempt to relate our findings to any of the specific types of grants.

Our review was focused on the fiscal year ending March 31, 2002.

Our work consisted of a combination of interviews, examinations and procedures as we determined necessary, including a detailed review of the Department's policies and procedures relating to the grants made to the CCTCs.

3.0 Summary Conclusion

By not adequately controlling the awarding and monitoring of grants and not having adequate processes in place to measure and report on the performance of CCTCs, the Department is exposing itself to higher risks than necessary, that public monies may not be spent prudently or effectively. However, it is important to acknowledge that the controls over the awarding and monitoring of grants are a subset of the controls over this program. For example, the Department has processes in place to license facilities and to control the placement of clients into facilities which were outside the scope of our audit. These activities also contribute to the controls in the overall program.

4.0 Detailed Findings and Conclusions

OBJECTIVE 1: TO ASSESS THE ADEQUACY OF THE DEPARTMENT'S PROCESSES FOR AWARDING AND DISTRIBUTING THE GRANTS TO CCTCs

We used the following criteria in our assessment:

- Procedures should be established and documented to ensure that CCTC grant recipients are continuing to achieve their program objectives;
- Grant agreements should clearly define expectations, roles and responsibilities of both the Department and the CCTC;
- Appropriate financial information should be obtained from the CCTC being awarded the grant including:
  - Cash flow statements;
  - Budget for the current fiscal year;
  - Audited Financial Statements; and
  - Details of any other grants received from the Province in the previous fiscal year;
- CCTCs should indicate, in writing, their acceptance of any conditions the Department has attached to the grants prior to the funds being distributed by the Department; and
- All Department decisions regarding the awarding and distributing of the CCTC grants should be adequately documented and accounted for in Department records.

Findings

- Procedures to ensure that CCTCs are continuing to achieve their program objectives are not documented in the Department's policies and procedures manual.
- CCTCs do not have to submit an annual application to the Department in order to receive funding since they provide very specific children services. Instead, the Department enters into three year service purchase agreements with CCTCs. There is a policy stating that the Department should use a specified format for the service purchase agreements. The specified format requires the Department to explain all the rules and regulations covering CCTC grants, and sets out the roles and responsibilities of both the Department and the CCTC involved. However, there are no current service purchase agreements in place which meet these requirements.
- All external agencies, including CCTCs, must also meet the Department's agency reporting requirements. Based on the Department's policies, the

following are some of the key documents required and the respective deadlines to be met, as part of the agency reporting process:

- Organization identifying information forms, which detail the agency's objectives, key staff and board members, are required to be filed with the Department by either the date of the CCTC's year-end (March 31) or within two months of the CCTC's annual general meeting. None of the four CCTCs had completed these forms. The only organizational information documented on file was for the Knowles Centre and the information had been prepared by the Department instead of by the CCTC.

- Audited financial statements (and management letters, if issued by the auditors) of the CCTCs must be received by the Department no later than three months after the CCTC's March 31 year-end. MacDonald Youth Services and New Directions for Children, Youth and Families both sent in their audited financial statements by June 30, 2001. However, the Department didn't receive the Knowles Centre Inc. audited financial statements until July 31, 2001 and the Marymound Inc. audited financial statements until October 13, 2001. The auditors did not issue management letters for any of the CCTCs.

- Preliminary budgets for the CCTCs must be submitted to the Department by March 15 each year. Only the preliminary budgets of New Directions for Children, Youth and Families and the Knowles Centre Inc. were on file for the 2001/02 fiscal year-end and both were received subsequent to the March 15 deadline.

- Final budgets for the CCTCs must be sent to the Department within 45 days of having being notified of the approved estimate level. No final budget was prepared and filed with the Department by any of the CCTCs.

- Since cash flow statements are required to be included with audited financial statements under Canadian generally accepted accounting principles all four CCTCs met this requirement.

- It is the Department's policy to use funding models to determine the amounts of the various types of grants to be made to the CCTCs. Based on our discussions with Departmental officials, funding models were not used to determine the amounts of the CCTC grants for the March 31, 2002 fiscal year. We noted that only one of the CCTCs had a draft central and program grant model prepared for that year. We were told that the decision was made to provide grant funds to the same four CCTCs at the same level as the previous year, with an inflation adjustment, rather than determining the CCTC grants using funding models. This decision was not documented in the Department's records.

Conclusion

- *The Department's processes for awarding and distributing grants to CCTCs do not adequately control this activity. The primary indicators of this situation are the absence of purchase agreements, that failure to adhere to departmental reporting requirements has little or no effect in determining grant awards in subsequent years, and the absence of documentation of funding decisions.*

OBJECTIVE 2: TO ASSESS THE APPROPRIATENESS OF THE DEPARTMENT'S MONITORING PROCESSES FOR ENSURING THAT GRANTS PROVIDED TO THE CCTCs ARE BEING USED FOR THE INTENDED PURPOSES

We used the following criteria in our assessment:

- The Department's policies, procedures and service purchase agreements should encompass the following minimum grant accountability requirements:
  - Annual or more frequent financial reporting in accordance with generally accepted accounting principles comparing budgets to actual;
  - Annual or more frequent reporting on performance against agreed upon service levels;
  - Effective monitoring of required reports by the Department accompanied by effective action in response to issues raised by the monitoring process;
  - Periodic on-site reviews of CCTC operations; and
  - Comprehensive documentation of monitoring activities of the Department.
- All CCTC grant recipients should comply with the above accountability requirements and those set out in the Department's policy and procedures manual and service purchase agreements.
- Accountability reports not received by the deadlines established should be followed up by Department staff in a timely fashion.

Findings

- The Department's agency reporting requirements, as set out in the Department's policy and procedures manual, contains numerous requirements by which the Department requires CCTCs to be accountable for the grant funds provided. In addition to the agency reporting requirements previously mentioned in this report, listed below are some of the other significant document requirements and their respective deadlines:

- Annual reports are due immediately following each CCTC's year-end (March 31) or by the date of the CCTC's annual general meeting. If no formal annual report is prepared by the CCTC, the minutes of the annual meeting must be submitted in its place. We noted that Knowles Centre and MacDonald Youth Services provided their annual reports on a timely basis, but Marymound Inc. and New Directions for Children, Youth and Families were significantly late in submitting their reports.

- Supplementary reports, detailing the actual number of employees on staff at each of the CCTC's residential facilities (by program), salary ranges and the number of units of service provided during the year, must be received by the Department three months after the Centre's March 31 year-end (June 30). At the time of our review, no supplementary reports were on file for any of the CCTCs.

- Knowles Centre, Marymound Inc. and MacDonald Youth Services are required by the Department to provide quarterly financial statements. New Directions for Children, Youth and Families is required to report to the Department on a monthly basis, due to previous cash flow difficulties experienced. The quarterly financial statements are due on the 25th day of the month following the period being reported (i.e., for the quarter ending June 30th, the financial statements are due July 25th). During our review, we noted that only one "five-month" interim financial statement was received from Knowles Centre. Furthermore, New Directions for Children, Youth and Families had only submitted two monthly interim financial statements, even though seven months had passed. At the time of our review, no interim financial statements had been received by the Department from the other two CCTCs.

- The Department uses a master control log to monitor the documents submitted by the CCTCs in complying with the Departments policies and agency reporting requirements. We noted that the Department updates the master control log frequently, but it does not follow-up missed deadlines in any organized or timely manner.

- There are three departmental policies which state that the following information must be reviewed, and that review should be documented by Department staff:

  - CCTC audited financial statements, and management letter, if applicable;

  - CCTC interim financial statements; and

  - CCTC preliminary and final budgets (though preliminary budget reviews don't have to follow a specified form).

  We noted that written reviews of the audited financial statements were done for all four CCTCs, but the reviews were not documented until late October and November. Also, the Department did not prepare any written reviews of the interim financial statements, or of the CCTC preliminary or final budgets.

- Specific requirements for the audited financial statements of CCTCs are also outlined in the agency reporting requirements, to ensure the CCTCs provide adequate accounting for their use of the grant funds provided to them. Included in these specific audit requirements are discussions of required disclosure, and acceptable accounting policies for the major balance sheet and income statement sections. Our review of the CCTCs' audited financial statements indicated that three of the CCTCs are not in compliance with the specific requirements outlined for long term debt.

- Monthly statistical reports are required from CCTCs by the Department. These reports deal with absent days per child in care, empty beds, and the number of cases opened or closed at each of the CCTC residential facilities. From these reports, the Department prepares and reviews the Days Care and Absent Days reports to monitor the occupancy and absent days by facility. All four CCTCs are providing the monthly statistical reports to the Department and the Department is reviewing these reports on a timely basis.

- There is no Department policy or procedure in place to ensure those funds provided to the CCTCs have been used for the purposes intended. The Department's procedures assume that an unqualified audit opinion from the external auditor provides evidence that the funds were used for the purposes intended. There is no provision noted in the Department's policy, or in the most recent service purchase agreements, which sets out the Department rights to recover grant funds that were not used for the purposes intended.

- Child and Family Service agencies across Manitoba are constantly placing children into various CCTCs. The Department relies on these agencies to advise it if they have any concerns with the quality of service. All incidents that occur at the CCTCs must be reported to the Department within 24 hours (with written details to follow within five days), based on the CCTCs' licensing regulations. Department staff review these incident reports and advise the Department's Program Specialists. The Department believes that these procedures allow them to perform adequate day-to-day monitoring of CCTCs. However, these procedures are not documented in the Department's policies and procedures manual.

- When the Department believes that too many incidents are occurring at the same facility, or there are concerns for the safety of the children in care, a quality assurance review may result. Quality assurance reviews are used to determine and report whether or not CCTCs are following stated program objectives, policies and procedures. The number of quality assurance reviews performed by the Department depends on the number of severe incidents, and on staff availability within the Department. Only five of the twenty-four facilities operated by the four CCTCs have had a quality assurance review performed on them, in the past five years.

Conclusion

- *CCTCs are not being adequately monitored by the Department. As a result there is more risk than necessary that funds may be used for purposes other than intended and service quality may not meet the Department's requirements. Evidence for this conclusion is found in the absence of effective action to address failures on the part of CCTCs to abide by the Department's accountability requirements, and by gaps in these accountability processes.*

5.0 Recommendations

- That the Department review and update the CCTC policies and procedures manual on a regular basis.
- That the Department amend the policies in respect of funding decisions to include a review of the most recent audited financial statements of CCTCs, and that consideration be given to incorporating an analysis of the quality of service. Further, we recommend that the Department reassess the usefulness of the funding models and, if these are determined to be useful, that appropriate processes be put in place to ensure that current models are in place and used effectively.
- That the Department establish and document procedures to ensure that the CCTC grant recipients are continuing to meet their program objectives.
- That the Department fully document funding decisions for grants to CCTCs.
- That the Department obtain signed service purchase agreements from each of the CCTCs as soon as possible. These agreements should clearly communicate the specific expectations, requirements and responsibilities of the grant recipients and of the Department. They should also contain a reference to the powers of the Auditor General to conduct an examination or audit in respect of the public money they receive
- That the Department develop appropriate action plans to respond to CCTCs that regularly miss the deadlines established by the Department for its agency reporting requirements.
- That the Department establish and implement a process for taking timely, effective action in response to failures by CCTCs to provide required accountability information.
- That the Department ensure that interim financial statements from the CCTCs are obtained only when there is an identified need.
- That the Department modify the financial reporting disclosure requirement for long term debt to be consistent with that used in CCTC financial statements.
- That the Department implement and document monitoring procedures to ensure the funds provided to the CCTCs are being spent for the purposes intended. When this is fully established, it would be appropriate for the

Department to review its own performance reporting on this program with a view to strengthening the accountability information it provides to members of theLegislative Assembly.

- That the Department document policies and procedures identifying instances where an evaluation, audit or a review of a CCTC is required.
- That the Department establish a cycle for its quality assurance reviews of the CCTC facilities, to ensure each CCTC facility would be reviewed within a reasonable time frame.

Department Response

As stated in the summary conclusion of this report, it is important to acknowledge that the controls over the awarding and monitoring of the grants that were audited are a subset of the controls over this program. The Department does have other substantial controls operating in this area which were outside of the scope of the audit, including:

Placement of Children

The Provincial Placement Desk, managed by the Branch's Managed Care Team, reviews all referrals to CCTCs to ensure that children in need of residential care treatment meet the placement criteria and that their needs are matched with an appropriate care level. All placements and discharges from CCTCs are centrally coordinated and approved by the Placement Desk.

Facility Licensing

All child care facilities, including the CCTCs, are licensed by the Branch. Regulations and standards have been developed which clearly define departmental requirements in a variety of areas. The Managed Care Team conducts annual reviews to ensure there is compliance with the licensing regulation and standards. The Branch maintains ongoing information regarding the functioning of the residential units and ensures that the residential units are providing safe and effective treatment environments for the residents.

Program Funding and Reporting

Current funding to the CCTCs is provided through a combination of central support grants and per diem funding. Over 50% of the funding to the CCTCs is through per diem funding approved by the government and not paid until reports from the CCTCs show that the services have been provided. Residential Support Services are individually approved and monitored by the Placement Desk. Policies and procedures exist that govern access to this funding and the maximum levels of support, which can be provided. Other services which are funded by program grants to the treatment centres are

required to submit monthly reports which provide information regarding the number of clients served, or the units of service provided.

As far as the continued suitability and effectiveness of the controls over the awarding and monitoring of the CCTC grants; which fell within the scope of this audit:

- *The Department agrees with the audit findings regarding the follow up and/or enforcement of a number of the existing reporting requirements. The Department is reviewing the relevance of some of these reporting requirements to determine if they should continue.*
- *The Department agrees with the recommendation that the Branch reassess the continuing usefulness of the existing funding model's financial practices. The model was introduced over fifteen years ago and a number of the model's funding assumptions are no longer valid in today's fiscal environment. A "model review" has been initiated with the expectation that, in conjunction with the review of the reporting requirements, it will enable the Department to more effectively monitor the use of the funds provided.*
- *Service purchase agreements for two of the CCTCs are in the process of being renewed, and the Department plans to conclude negotiations on the remaining agreements during 2003 – 2004.*
- *Quality Assurance reviews are currently being completed on several residential care facilities and the Department is committed to establishing a regular cycle for quality assurance reviews.*
- *Beginning in the fall of 2003, the Branch will pilot a new "results based/outcomes measurement" instrument to better inform the Department on the performance and effectiveness of its program investments.*

While the Department is satisfied that public monies in support of the CCTCs are being spent "prudently and effectively," it is also committed to modernizing the funding models for the Centres and to continue improving the financial and program performance reporting requirements.

A REVIEW OF THE STUDENT RECORDS SECTION OF THE PROFESSIONAL CERTIFICATION AND STUDENT RECORDS UNIT

Education and Youth

1.0 Introduction

On November 20, 2001 the Office of the Auditor General (OAG) of Manitoba notified the Deputy Minister, Manitoba Education, Training and Youth (Department), now known as Manitoba Education and Youth, that the OAG intended to initiate a review of the Student Records Section of the Professional Certification and Student Records Unit (Unit) within the Department.

2.0 Objectives and Scope

The review focussed on determining whether:

- School/school division data received by the Unit is complete, accurate, timely, and in a format conducive to effective and efficient processing by the Department;
- The design of the information database and data collection adequately supports the information needs of the Unit; and
- Information accumulated and reported by the Unit is complete, accurate, timely and meets the needs/requirements of users:
    - students and graduates;
    - schools and school divisions;
    - administrators and staff of the Department; and
    - other educational organizations.

The review was conducted during the period November 20, 2001 to March 5, 2002.

Our work consisted of such examinations and procedures that we determined were necessary to conduct the review and any other issues that arose during the course of the review including interviews, on site observations and discussions, and a review of correspondence and other supporting documentation. We interviewed school and divisional personnel from three school divisions, staff of the Unit and staff in various branches of the Department.

We engaged an Education Consultant to work with our office in this review.

3.0 Background

The Province has been collecting student mark records since the formation of the Department of Education in the early 1890s. Today, the responsibility for the collection of student mark records resides with the Unit, part of the Education Administration Services Branch (Branch) of the Department. The Unit has been located in Russell, Manitoba since the spring of 1993.

The staff complement of the Unit consists of 13.5 full-time equivalent positions of which 2.5 are directly responsible for Student Records. The Program Director and the Data Coordinator also have responsibilities related to Student Records.

The principal responsibility of the Student Records section of the Unit as stated in the Estimates of Expenditure of the Province of Manitoba for 2001/02, is to:

- Collect and enter senior years marks on the EIS data base; and
- Prepare official statements of senior years marks.

4.0 Reporting and Recording Process

4.1 EDUCATION INFORMATION SYSTEM

The Education Information System (EIS) comprises a number of databases and information processing systems for gathering and maintaining Kindergarten to Senior 4 educational information. The EIS assists the Department in delivering operational programs, ensuring effective program management and assessing educational accountability.

Schools and school divisions are required to report enrolment, student marks and teaching information in a common data file format referred to as the EIS Collection. Data is validated at the school/school division before being forwarded to the Department. The information collected through this process is used in calculating school funding, establishing student demographic records, and providing information on teaching activities. The EIS Collection has been used across the province since September 1997.

For data collection and information tracking purposes, every student registered in a Manitoba school must be assigned a unique number. This number is known as the Manitoba Education Number (MET #). The MET # is being used throughout the school system and is required on all official correspondence with the Department.

At the time of our review, the EIS contained almost five full years of student data, with enrolments and senior year's marks at an individual level for reporting and statistical purposes.

4.2 STUDENT MARK DATA COLLECTION

The reporting of 2000/01 student marks was addressed in a letter dated June 2001 from the Branch to all school divisions, all superintendents and principals of Senior High schools, evening and summer schools, funded independent schools and individual First Nations Band Operated schools. The letter indicated that:

All schools with Senior 1 - 4 students were required to provide student marks to the Department, per Regulation 468/88R. Other schools such as non-funded independent schools using qualified teachers were encouraged to submit marks as well. Student marks were to be submitted for every subject recognized by the Department including those taken through the Independent Study Program (ISP).

Student marks were to be sent in an electronic format at designated times and were to meet the Department's specifications per the EIS Collection. Failure to submit student

marks in accordance with the required specifications would result in the marks files being returned.

Schools/school divisions provide the data utilized by the Unit. The schools are provided with EIS Collection diskettes and a corresponding Users Manual. The information is entered on to the diskettes manually or through the school's administrative software package. The diskettes are then forwarded to the school division office where data from all schools within the division is accumulated. The school divisions then forward the Student Enrollment data diskette to the Schools Finance Branch (SFB) of the Department and the Student High School Marks data diskette is sent to the Unit. Both are then entered into the EIS.

5.0 Expectations

5.1 SCHOOL/SCHOOL DIVISION DATA RECEIVED BY THE UNIT SHOULD BE COMPLETE, ACCURATE, TIMELY AND IN A FORMAT CONDUCIVE TO EFFECTIVE AND EFFICIENT PROCESSING BY THE DEPARTMENT

Findings

- The majority of schools/school divisions submit their data as required by the Department. The vast majority of the time spent by the Unit staff, however, is on those who do not. The findings that follow reflect some of the issues that impede the effective and efficient processing of information by the Unit.
- The Department had no policy/procedure in place to ensure that school administrative software packages were compatible with the EIS Collection.
- One of the School Divisions we visited had been sending their data to the Unit in paper format, rather than the required electronic format. This was necessitated by the fact that the division was using an administrative software package that was not compatible with the EIS Collection. Two other school divisions were also submitting data in paper format.
- Of the more than 400 schools with Senior 1 to Senior 4 students reporting data to the Unit, nine different administrative software packages were most commonly used. Several school divisions had more than one administrative software package operating within the division's schools. One school division had five different packages in place in seven schools. Approximately 135 schools entered data manually into the EIS Collection or were using administrative software "unknown" to the Unit.
- There was limited knowledge within the Department concerning the operation of the wide range of software packages.
- The Unit staff is required to spend considerable time correcting errors in the data submitted. This has resulted in delays in data input to the EIS.

- As at January 2002 there were four school divisions, one school district, four First Nations Band operated schools, and one provincial institution that had not submitted any data. This resulted in more than 6,000 student records not being entered into the EIS at that date.
- From 1986 to 1994 students marks were sent to the Unit in a variety of formats – paper, microfiche, useable and unusable electronic packages – or not submitted at all. During this period, commonly referred to by the Unit staff as the "Black Hole", there had been a breakdown in communication between the schools/school divisions and the Department concerning the reporting of marks. At least 100 schools had not yet submitted data for one or more years for that particular period.
- Some schools/school divisions are submitting inaccurate data. For example, one school division sent in a diskette of data for the 1999/00 school year rather than the 2000/01 school year. At the time of our review, receipt of the correct data was still outstanding.
- On some occasions submitted data diskettes have been improperly packaged and damaged in mailing. This resulted in the data being totally unusable.
- There were no consequences imposed by the Department on schools/ school divisions for non-compliance with submission requirements for EIS Collection.
- The Unit has provided schools/school divisions with annual step by step instructions that outline the process to be used for the EIS Collection. However, when they conduct their annual training sessions for school personnel, they have not always differentiated between the needs of those people new to the process and of those who have experience. Additionally, some schools/school divisions have not ensured that training time for their secretaries/data technicians has been adequate.

5.1.1 Distance Learning and Information Technology Unit

The Distance Learning and Information Technology Unit (Distance Unit), formerly known as the Correspondence School Branch, works within the Program Development Branch of the Department and is responsible for the development and acquisition of distance education courses (print and electronic).

The Distance Unit offers the Independent Study Program (ISP) for high school credits. The ISP provides high school courses for students who choose to learn outside the classroom environment. The ISP supplies high school courses to approximately 4,000 students per year. Additionally, 3,000 courses per year are sold to high school teachers and to Adult Learning Centres to be used as reference materials.

These students may be enrolled in a school or they may be working on courses independently. The marks for students enrolled in the ISP and registered in a school are included in the student records component of the EIS through the normal submission of school/school division marks. The marks for students taking ISP independently are included as part of the Distance Unit submission to the EIS.

Findings

- The Student Record system used by the Distance Unit was not compatible with the EIS prior to March 2001. At that time, a new system became operational but has continued to experience compatibility problems with the EIS.
- Staff from the Distance Unit, the Unit and Systems Technology Services (STS) had been meeting to work on solutions for the compatibility problem and a target date for completion had been set for late summer or early fall 2002.
- Due to the ongoing compatibility problem as many as 8,000 to 10,000 students who had taken ISP courses independently do not have access to complete student mark transcripts.
- Distance Unit student mark records prior to 1989 have never been entered into the student records component of the EIS and this information, on microfiche or paper, are now housed in the Manitoba Archives. Individuals requiring access to their marks must apply in person at that site.
- Student mark records for the years 1989 to 1998 exist in EIS but cannot be accessed directly. The Unit had to access the information through a query process that has been recently created.

5.1.2 Funded Independent Schools, Non-Funded Independent Schools and Home Schooling

The Branch is responsible for ensuring that Independent Schools and families choosing to Home School their children comply with administrative and program requirements, where applicable, and meet basic education standards as determined by the Department.

Findings

- There are approximately 13,000 students in Funded Independent schools who are registered and whose mark data is submitted to the Unit and entered into the EIS.
- There are approximately 1,300 students attending non-funded Independent Schools. These schools do not receive funding because they use neither Manitoba approved and developed curricula nor Manitoba certified teachers. As a result, no information for students in non-funded Independent Schools is entered into the EIS.
- The approximately 1,200 students being home schooled have their demographic information kept in files at the Branch. The Branch enters this information directly into the EIS. These students do not formally register with the Branch. Instead, they notify the Branch through a notification form provided by the Branch at the beginning of each year. Home schooled children are taught primarily by non-certified individuals - their parents, and are taught using a variety of curriculums and, as a result, marks for these students are not recorded in the EIS. Branch staff indicated that there are many other students being home schooled where notification has not been sent to the Branch.

5.1.3 First Nations Band Operated Schools (Band)

Some First Nations Bands operate their own schools. They hire teachers from within and outside the province. In some cases they use the Manitoba curricula, and in other cases they import programs to suit their particular needs.

Findings

- Band operated schools that follow the provincial curricula, as taught by Manitoba certified teachers, are encouraged to register and report student marks provided they send the data in the required format. However, these schools are not required to register their students.
- The majority of Band operated schools for the 2001/02 school year had registered with the Unit. Student record continuity has been complicated by the fact that Band operated schools are not obligated to register on an annual basis.

Conclusions

- *The student marks component of the EIS Collection is incomplete and compromised with respect to the reliance one can place on information reported by the Unit. This is a result of a lack of policies and procedures related to standard data entry protocols and inadequate training of school/ school division staff that would ensure the correct and timely submission of data.*
- *Causes of this situation may be related to inadequate clarity as to the role of the Unit and the matching of resources to that role. We were favourably impressed by the staff of the Unit in accomplishing their objectives with minimal support and limited resources.*

5.2 THE DESIGN OF THE INFORMATION DATABASE AND DATA COLLECTION SHOULD ADEQUATELY SUPPORT THE INFORMATION NEEDS OF THE UNIT

Findings

- The Unit encounters frequent deviations from the established procedures. These deviations often require system modifications. We noted that the required system modifications are frequently not made on a timely basis contributing to delays in recording data in the EIS and heightening the risk of errors.
- We were advised that the design of the EIS Collection is inefficient in that system changes take an inordinate amount of time to implement. STS management indicated that they intended to change the database program to a system that would enable modifications to be made much more quickly.
- Changes to course names, course numbers and the definition of a "student" have been developed annually by the Department. These changes relate to the following year's EIS Collection. The Department

forwards information regarding these changes to the Unit for distribution to schools/school divisions long after the February and March school registration of students for the following year has taken place. As a result, the EIS may not contain information that is consistent with Department requirements.

- When registering new students, schools have not always used Birth Certificates to ensure proper legal names and birth dates. This has created situations where duplicate MET #s have been assigned. In some cases students have been registered with up to five different MET #s.

Conclusion

- *The EIS Collection student module does not adequately support the information needs of the Unit.*

5.3 THAT THE INFORMATION BEING ACCUMULATED AND REPORTED BY THE UNIT IS COMPLETE, ACCURATE, TIMELY, AND MEETS THE NEEDS/REQUIREMENTS OF USERS

Findings

- Some senior Department staff suggested that the Student Records Section of the Unit could not vouch for the accuracy of the mark transcripts they provide, as they must trust the veracity of the information they receive from the schools. The Unit does, however, send verification reports to the school/school divisions to try to ensure that submitted data has been reviewed for accuracy and corrected where necessary.
- Department staff indicated that the Student Records Section of the Unit is considered to be primarily a "backup" for school marks and for issuing Provincial transcripts as requested.
- The number of requests for student mark transcripts has been increasing steadily over the past few years. In 1997/98 the unit received 448 requests. In 2001/02 the number of requests was approximately 1000.
- Department staff indicated that the demand for the statistical information resident in the Unit and the EIS is likely to increase significantly in the future. Some examples of this demand are as follows:
  - Mark records and course selection information assists in curriculum design and in making changes to the content of courses.
  - Graduation information can generate indicators that can be used for demographic purposes such as the National Indicators Program.
  - The SFB can use the information to look at funding issues.

Conclusion

- *The needs of users of the data are not being met, because the data being reported is not always complete or reliable.*

6.0 Recommendations

- That the Department develop and enforce standards for school administrative software packages used by all providers of student mark records. Consideration should be given to providing each reporting institution with the software, recording template and instruction manuals necessary to support consistent reporting. This should be supplemented by an effective training regime designed and supported by the Unit.
- That the Department develop and implement an action plan to collect and input all missing data. In particular this plan should focus on the missing record information from 1986 to 1994 and all Independent Study Program students mark records from 1989 to the present.
- That the Department set clear goals, then develop and implement an action plan to redesign the EIS Collection to enhance the accuracy of the database, the timeliness of the data, and the accuracy of the reports to users of the information.

Departmental Response

These comments were provided to the OAG in April 2003.

Response to Section 5.1

The Department does not accept the contention that the student marks module of EIS Collection is incomplete and unreliable. It was established in 1997 and intended to electronically capture student data from that point onward, although it has been successful in "reaching back" and obtaining partial student information from previous records systems. While the Department acknowledges that a very small number of school divisions have experienced difficulty with their individual vendors in providing senior years marks through EIS Collection, the Department has worked closely with those divisions and vendors to get the marks uploaded. Further, it should be noted that over 90% of senior years marks are entered through EIS Collection in an accurate and timely fashion.

The primary role of the Student Records section has always been to serve as a backup to high schools for the collection and retention of senior years marks and credits, and to produce official statements of marks upon request. The section has 2.5 staff in positions supporting this role, and the Department is appreciative that the dedication of staff has been noted in this Report. The Department also agrees that training of front-line users of EIS Collection to reduce error rates is important. The Department has provided annual in-servicing to school/division personnel, but will attempt to differentiate this training between experienced and new users, so that the particular needs of each group are more specifically addressed.

Response to Section 5.2

Systems changes to application and business requirements are planned in consultation with all Branches involved with EIS data collection requirements, and have to be coordinated with schools and software vendors. There are specific release dates and implementation dates for new features, functions or modifications. It should be noted that a rewrite of EIS Collection application, to reflect changes in data collection and technology advances, has been undertaken and is scheduled for release in late summer 2003. It will continue to reflect the business and program requirements of users and the information needs of the Unit.

Response to Section 5.2

The Department does as much as it can to ensure accuracy and completeness of school-submitted data: signed verification reports from school divisions, use of filtering devices to check duplicate MET numbers, and provision of reporting software and recording template (supported with instruction manuals and training) each year. No data collection system can vouch for the entire completeness or absolute reliability of the data set contained within it. The Department will continue to work with those school divisions, and their vendors, where problems have been experienced in providing data to the Department. Notwithstanding this, the Department believes that user needs are being met through the information contained in the database.

Response to Section 6.0

- *Standards for school administration software packages have been developed. The type, definition and range of data collected was discussed and determined by a Stakeholders Advisory Committee of representatives from education organizations, schools, and the Department. The standards, templates and software are provided to all schools, and to their vendors or custom application developer. The Department appreciates the Auditor's comment with respect to enforcement of these standards. The Department will consider the Auditor's recommendations, and will continue to work closely with schools/divisions and vendors to address concerns with respect to the timely reporting of data.*

- *Professional Certification and Student Records Unit (PCSRU) staff is currently examining the missing student records data from the period between 1986 and 1994 inclusive. Staff is assessing the data that is missing in order to establish an effective recovery and storage strategy for that information. This kind of feasibility exploration is necessary because some of the data has been sent to the Department but it is stored in a variety of formats. In order to determine what has to be collected it is necessary to establish what exactly is held within the various files onsite at PCSRU. All of this information pre-dates the*

development and establishment of departmental standards through the Education Information System and EIS Collection, and was a primary driver for the creation and implementation of EIS.

Systems and Technology Services (STS) and Distance Learning and Information Technologies Unit staff successfully implemented an integrated student records system. This system came online in the fall of 2002, after the OAG review was conducted. The project involved the development of a student module for the Distance Learning and Information Technologies Unit. The application was developed in cooperation with STS staff and allows for direct access to student data on the EIS. The integration of this application with the EIS Student Module allowed staff to eliminate all problems and issues relating to the reporting of student marks by the Distance Learning and Information Technologies Unit. Historical computerized student record data was also uploaded onto the Student Records Module as part of this project. This means that the concerns identified by the Auditor General under Section 5.1 Distance Learning and Information Technology Unit have been resolved except for the microfiche files. Currently there is no plan to computerize the microfiche files.

- *As referenced previously, redesign of EIS Collection is underway, and will be released to school and school divisions in late summer of 2003. It should be noted, however, that the technical redesign of this collection utility has no direct bearing on the accuracy of the data reported, the timeliness of the responses by schools and the accuracy of the reports to users. These are all elements outside the control of the software application itself and in the jurisdiction of the reporting schools.*

NORTHERN MANITOBA COMMUNITY COUNCILS' FINANCIAL REPORTING STANDARDS

Department of Aboriginal and Northern Affairs

1.0 Introduction

As at March 31, 2000, the Department of Aboriginal and Northern Affairs (the Department) was responsible for specific municipal services funding in fifty Northern Communities, which can be classified as follows:

- 14 had trust accounts with the Department and the Department paid their bills directly;
- 13 were designated as self-reliant (self- reliant communities receive pre-funding for future capital commitments);
- 1 community was incorporated;
- 17 were designated self-administered (funding provided on a cash flow basis); and
- 5 received block funding (where the community has some flexibility to reallocate funding according to its priorities).

For the 1999/00 fiscal year the Department made direct payments of $11 million to Community Councils. Other specific purpose municipal services expenditures paid by the Department during the year totaled another $4 million.

The Department has developed a policy and procedural manual (the manual) to assist Community Councils with their operations including their financial reporting. The manual contains the Department's accounting policy guidelines. These form the basis of Community Councils' financial reporting standards.

At the time of our audit - the fall of 2001, the Department was in the process of revising the manual which included the standards for financial reporting.

2.0 Audit Objectives, Scope and Approach

Our objective was to assess the financial reporting standards required by the Department for Northern Manitoba Community Councils.

Our work focused on Community Councils' financial reporting for the year ended March 31, 2000 and our audit was performed in the fall of 2001.

Our work included a review of the Department's manual; comparison of the Department's financial reporting standards against the standards in the CICA Public Sector Accounting Handbook; analysis of a sample of Community Councils' financial reports; comparison of the financial reporting standards used in these reports to the Department's standards; and reviews of the Department's monitoring of the Community Councils' financial reporting.

3.0 Department of Aboriginal and Northern Affairs' Policy Manual

Findings

- The following are the significant accounting policy guidelines included in the Manual:
  - basis of accounting is "modified cash" which is defined as a cash basis adjusted for year end accruals; and
  - all financial assets and liabilities are to be disclosed.
- The manual does not require the preparation of financial statements. It permits the use of limited, special financial reports to account for community council operations.

Conclusion

- *The financial accountability of Community Councils is weakened because the Department does not require them to abide by public sector accounting standards as recommended by the Public Sector Accounting Board (PSAB) nor does it require them to prepare annual financial statements.*

4.0 Review of Community Councils' Financial Reports

Findings

Revenue and Expenditure

- There is no formal income statement. Revenue and expenditures are reported on a cash basis. The net revenue is then added to the opening bank balance to arrive at a net operating balance. The difference between actual and budgeted figures is reported line by line as operating results instead of reporting the net of actual revenues and expenditures as operating results. There are no comparative figures presented.
- Accrued revenue and expenditure are not included in the reported revenue and expenditure figures, despite the disclosed accounting policy that indicates that they are.
- In addition, the cut-off allowing for the recording of payments (expenditures) made in the April following year end as cash transactions is inappropriate. The payments should be recorded as an accounts payable not a cash transaction.

Assets and Liabilities

- The ending bank balance is added to accrued accounts receivable and accounts payable and combined with the project (reserves) balance to determine the net financial position. The sum of accounts receivable, accounts payable, ending bank balance and ending project balance constitute the entire balance sheet.
- The summarized statement is a combination cash based income statement and the net assets section of a balance sheet.
- The Communities' disclosed accounting policies do not account for other financial assets such as investments (the assets that should represent the equity portion of the project (reserve) balance).

Conclusion

- *The Community Councils' financial reports fail to meet the Department's financial reporting standards. In addition, they do not prepare financial statements in accordance with generally accepted accounting principles.*

5.0 Review of the Department's Monitoring of Community Council's Financial Reports

Findings

- The Department's monitoring of the Community Councils' financial reports entails a number of procedures, one of which is to produce an "Analysis Report" to reflect the results of its analysis of financial reporting.
- Many of the Community Councils are small organizations and their resources are limited. The clerk/administrator, who has myriad duties, is also responsible for preparing the financial reports for the Community. These individuals seldom have accounting expertise.
- Some of the key findings in the Department's Analysis Report are:
    - there is an absence of a statement of financial position (balance sheet), a statement of financial activities (income statement), and a statement of changes in financial position (statement of cash flows);
    - only 11 of the 36 Communities submitted their audited financial reports by the September 30 deadline;
    - the consequences for submitting late Community reports should be the same as obtaining a denial of opinion in the auditors' report;
    - the Community Councils did not change their revenue accounting policy to conform with the Department's revised policy (effective May 24, 2000) which was modified as to how conditional (restricted) versus unconditional (unrestricted) should be recorded;

  - there were a number of instances where the requirement for a bylaw was not met when a reserve was set up; and
  - reserve funds were not always properly monitored.

- The Department's Analysis Report outlined a number of recommendations to remedy Community Councils' administration and/or financial management problems. The report also advocates that funding agreements be changed so that Communities are required to prepare their financial statements in accordance with Public Sector Accounting Standards.

Conclusion

- *The Department's Analysis Report forms a useful basis for improving the financial accountability of community councils.*

6.0 Review of Financial Statement External Audits

Findings

- Over the last three years, the number of Community Council financial statements audits which resulted in Auditors' Reports with a denial of opinion decreased from six in the 1998 fiscal year to four in the 1999 fiscal year to three in the 2000 fiscal year.
- The Department documented in its Analysis Report dated October 26, 2001 that "in ALL cases the reason stated for the audit denial [of opinion] was related to the auditor not being provided the required records".
- There are no fixed direct funding consequences to Communities whose financial statement audits resulted in a denial of opinion. However, the Department did place one Community in "trust" status for the 2000 fiscal year after it received a denial of opinion on its 1999 and 1998 audits. In other cases, three Communities who, on their 1998 audits, had denials of opinion had audits with clean opinions by the 2000 year end.
- Because Community Councils do not employ accountants to prepare their financial reports, the Department is attempting to have the financial statement auditors take on management's responsibilities in preparing the financial reports.

Conclusions

- *It is encouraging that the frequency of denial of audit opinions is decreasing. However, we note that limited action is taken to deal with the organizations that receive qualified or denied opinions.*
- *There are potential issues with respect to conflict of interest in having the auditors both prepare and audit the financial reports. These issues need to*

be carefully assessed to ensure that the community councils and the department are receiving independent audit opinions.

7.0 Recommendations

- We recommend that the Department adopt Public Sector Accounting Standards for Local Governments as its financial reporting standards for Northern Community Councils.
- We recommend that the Department prepare a model set of financial statements using the Public Sector Accounting Standards for Local Governments. Those model financial statements could then be provided to Community Councils as a guide in the preparation of their financial statements.
- We recommend that the Department provide the services of an accountant who could work with the respective communities to improve the level of financial reporting.
- We recommend that the Department develop an appropriate set of guidelines for responding to Communities receiving auditors' reports with a qualified opinion or denial of opinion or which miss reporting deadlines.

8.0 Subsequent to the Audit

Since our audit was performed, the Department has completed the revision of the policy and procedural manual. The Department selected a committee to address the need to re-design the Community Councils' accounting systems and requested the assistance of the Department of Finance - Internal Audit and Consulting Services with regard to developing revised financial reporting standards. The Department has implemented changes regarding Community Councils' financial reporting standards effective for the fiscal year ended March 31, 2003.

Those revisions include the preparation of financial statements – a balance sheet, an income statement, a statement of cash flows, and a statement of reserves, all prepared using an accounting software program and using an accrual basis of accounting. A comprehensive component of the revised manual is the Financial Management Guide, issued September 2002, which includes an example of those statements produced using the accounting software. [There is no example provided regarding appropriate note disclosure which should accompany those financial statements.]

The Financial Management Guide, part of the Community Management Handbook Series prepared by the Department also provides practical guidance regarding the accounting treatment for bad debt expense, capital projects, and carry over of year-end surpluses (appropriated surplus) as well as cash flow projections and budgeting. The Department has also provided training to Council staff along with the guide.

Department Response

The Department welcomes the independent review of the processes and procedures. Generally, the report deals with reporting on procedures and policies as at March 31, 2000. Our Department was aware that the reporting functions of the Community Councils, along with many municipal corporations in Manitoba, did not fully comply with the Public Sector Accounting Standards (CICA Handbook) as recommended by the Public Sector Accounting Board (PSAB) for Local Governments in March 2000.

The Department established a committee to take the lead in meeting the standards outlined in PSAB. The Municipal Accounting Committee (MAC) is comprised of a cross section of staff and includes our departmental auditor and the Director of Program, Planning and Development. Our Department is also supporting this transition by providing resource materials for the local community councils, their staff and our municipal development consultants, as well as financial resource for councils to utilize in accessing accounting expertise.

We have moved from modified cash to accrual basis of accounting. The required financial statements, outlined in the Financial Management Guide, consist of an Income Statement, Balance Sheet, Statement of Cash Flows, Project Reports for all Programs, Locally Generated Revenue Schedule and Schedule of Reserves, and this is consistent with PSAB reporting requirements.

Currently we feel we are positioned to provide the necessary support to improve the level of financial reporting. Our Department reorganized in November of 2000. The Municipal Development Consultant classification was created which requires the incumbent to have obtained a diploma in Municipal Administration or Business Administration. This qualification, coupled with the fact that our Department provides additional financial support to community councils to acquire accounting expertise, as the needs arise, should address this concern over time as our plan progresses. Additionally, we have our departmental Financial Analyst provide an analysis report of the community audited financial reports. This analysis is reviewed by the regional offices and replied to.

Through the course of this audit, the department had implemented several changes to bring the community financial reporting to the Public Sector Accounting Standards. The audit report (Section 8.0 subsequent to the audit) indicates that the department implemented several changes.

The implementation of the accounting system in communities created a major learning curve for the community administrators. Since its implementation the benefits are visible in the results of the community audits. Through this process the community audits have improved immensely and are continually improving. In 2002/03 there was only one

denied audit opinion. The nine qualified opinions ae all for the same reason, having to do with the recording of locally generated cash revenues. Auditors cannot verify that every small cash transactions for various fund raising activities are fully accounted for.

In the event of a "Audit Denial" the community must provide a plan on how the situation will be rectified before additional support is provided. The department requests that an interim audit be performed on the fiscal and management operations of the community within six months of having received the "Denied Opinion".

We are encouraged to further note that the timing on finalizing community audits has also improved. For the fiscal period ending March 31, 2003, only three audits were received after the due date of September 30.

UNIVERSITY OF WINNIPEG
FINANCIAL REVIEW

Advanced Education and Training

1.0 Subsequent Events

In accordance with our mandate, this report is being provided to the Legislative Assembly subsequent to the provision of our report to Council on Post-Secondary Education (COPSE) and the University of Winnipeg. We have seen substantial change and improvement in the financial management and direction at the University since completion of this report, and we extend our admiration to them for the various initiatives underway to take the University of Winnipeg forward financially.

2.0 Introduction

In December 2001, the Office of the Auditor General (OAG) engaged its agent Grant Thornton LLP to work with the OAG and perform certain variance analysis and other procedures on the financial information of the University of Winnipeg. The objective was to provide independent insight on the contributing components to the University's accumulated deficit, and to formulate a report that could provide a common understanding of the contributors to the deficit between University of Winnipeg administration, its Audit Committee, its Board of Regents, and COPSE.

Findings were discussed with the University of Winnipeg and a number of conclusions and recommendations were generated and provided to the University of Winnipeg and COPSE.

3.0 Scope

- Reviewed variances between budget and actual/projected amounts for the years ending March 31, 1999, 2000 and 2001 for both revenues and expenditures.
- Reviewed estimate documents for the years ending March 31, 1999, 2000, 2001 and 2002.
- Reviewed detailed budget and narrative document prepared for presentation to the Board.
- Retrieved numeric data from the University's financial system.
- Conducted interviews with Financial Services staff and others as required.
- Reviewed minutes of The Board of Regents and the Finance Committee of the University of Winnipeg.
- Compared estimate documents with Board approved budget documents for the years ending March 31, 1999, 2000, 2001 and 2002.

4.0 Conclusions

- The University of Winnipeg was provided with the majority of operating monies as requested annually from COPSE and incorporated these actual monies into its budget. Over the three-year period ending March 31, 2001, University operations only had an operating deficit of

approximately $86,000. Lack of COPSE operating monies was not a major contributor to the deficit

- The University of Winnipeg incurred a deficit by not achieving its Board approved budgets:
  - A revenue deficiency related to capital expenditures resulted from fundraising targets not being achieved;
  - Operating monies were used for capital expenditures, where in a couple of situations, over expenditures were made; and
  - Budgeted transfers from the Internally Restricted funds were used to balance the budget, but were not adjusted through by the Finance Committee in the year end financial statements, therefore causing a higher Unrestricted deficit.
- The overall deficit is much lower when the Internally Restricted Fund is considered together with unrestricted net assets.
- The Collegiate, Theology, and the Institute of Urban Studies appear to be consistently over budget. Additional operating monies have been required to cover these shortfalls, creating pressures for economies in other areas of operations.
- There is no reconciliation process performed between the Estimates Document, the Budget Document and the Year End Financial Statements that would better communicate the state of the University's finances between COPSE and the University.

5.0 Recommendations

- That the University of Winnipeg establish a documented strategic plan, identifying vision, mission, operating principles, and action plans for a long-term period. Budgeting should be linked to this strategic plan.
- That the University of Winnipeg and COPSE conduct discussions around funding in relation to the strategic plan for the University.
- That the University of Winnipeg and COPSE annually assess the contributors to variances between the Estimates document, the Approved Budget, and Actual Results.
- That COPSE ensure that the University of Winnipeg is operating under a balanced budget and should ensure that communications around funding and budget approval are formalized.
- That the University of Winnipeg prepare and submit separate operating and capital estimates to COPSE and prepare separate capital and operating budgets, rather than combining capital and operating funding requests and budgets into a consolidated document.
- That the University not rely on one-time revenue to balance its operating budgets. For sustainable operations, recurring revenues should define the

acceptable level of operating expenditures; one-time revenue should support one-time expenditures.

- That the University of Winnipeg use a zero-based budgeting approach. While we appreciate that the University evaluates it's programs, we would recommend that such evaluations be more explicitly coordinated with the budgeting process. Department's participation in the budget development process should be increased. Departments should be provided the opportunity to recast their monthly budgets using any revised amounts from their original submissions.
- That through monthly budget monitoring (revenue streams and spending), discretionary spending should be carefully reviewed and curtailed in the short-term when it appears that it will be necessary to offset revenue shortfalls.
- That a cash flow budget be incorporated into the overal budget process. Monitoring of cash flows and distinguishing cash inflows and outflows from revenues and expenses will facilitate the achievement of a balanced result.
- That the University consider activating the budgetary control feature in their financial software. This will flag accounts about to go over budget at the purchase order stage.
- That the University of Winnipeg consider securing a substantial portion of its external funding requirements for any major capital project prior to entering into a contract.
- That the University of Winnipeg be more vigilant in monitoring cost overruns on capital projects as the costs and implications of these projects can be significant.
- That the Board policy document on major capital projects be reviewed as to the scope of the dollar amounts and the protocols to be followed. Once the policy is amended as appropriate, the policy should be implemented and be strictly enforced.
- The University of Winnipeg should enter their budgets into the accounting system to reflect projected monthly cash flows that would facilitate monthly actual to budget variance analysis.
- When the annual financial statements are presented to the University of Winnipeg Board at year end, management should also present a variance analysis prepared on the same basis as the financial statements.

Response from the University of Winnipeg

The University would like to respond to the Auditor General's conclusions that (a) the University's operations only had an operating deficit of $86,000 over the 3 years under review; and (b) that the deficit primarily arose from budget shortfalls in certain capital projects.

While the University acknowledges that, as set forth in the Auditor General's report, there were revenue deficiencies during that period related to capital expenditures (where fundraising targets were not achieved), the University is of the view that, during the past decade, an estimated, structural deficit of between $1.5 million and $2.0 million per annum existed within operations (non-capital) and continues to exist within the University's operating financial structure. The University funded this deficit from extraordinary, non-recurring sources of revenue and reduction of expenditures.

During the period under review, the total of these extraordinary sources amounted to $3.0 million during the 3 years ending March 31, 2001. In effect, the University would have operated in a deficit position of approximately $5.8 million had these sources of non-recurring revenue and expenditure reductions not been available. Examples of the non-recurring revenue and expenditure reductions include the sale of MB Net, a pension contribution holiday, and a public sector work reduction program. The use of these non-recurring sources of revenue and expenditure reductions was projected in Estimates Documents provided to COPSE and reported in its fiscal year end results.

The University has, over the past two years, reviewed its approach to financial planning and undertaken several initiatives to improve and enhance the existing processes. The University has also entered into discussions with Copse and the Provincial Government through a Committee structure called "Joint University Government Group" to review and identify ways and means whereby the University's financial position can be improved and enhanced going into the future. The following summarizes the more significant changes that have been implemented in the area of financial planning within the University.

The following actions were initiated:

a) An initiative to develop a strategic plan is in progress within the University, incorporating an Academic Plan, Operating Plan, Facilities Plan and a Financial Plan, including the annual budget. Staff resources have been dedicated to facilitate the effort within the University through 2003.

b) A major enhancement to the annual operating budget process was implemented in early 2002 involving the creation of the 2002-2003 budget. The process to develop a new approach to annual budgeting, was facilitated by Deloitte & Touche. The change is reflected in the following approach:

i) Responsibility for the completion of an annual budget is the responsibility of the Vice-Presidents through the direction of the President, who is charged with delivering a balanced budget for the University to the Board of Regents;

ii) The creation of Academic and Department budgets and the amendment of budgets throughout the process is the responsibility of Deans and Department Managers reporting to their respective Vice-Presidents; and

iii) Establishing a Financial Forecasting Process for the current fiscal year that occurs 3 times each fiscal year developed at an Academic and Departmental level and delivered by each Vice-President. This process has occurred In September 2002 and December 2002.

c) A new annual budget process has been created to plan for the activities of Trust & Endowments, Capital Fund Expenditure Activity, and University Fundraising, including Annual Fund-Raising and Capital Fund Raising forecast goals for pledges and donations and related expenditures.

d) Implementation and/or enhancement of financial planning and financial management control functions, relating to observations made in the Auditor General's Report dated September 2002. They include:

i) Development of a Strategic Plan that is linked to Financial Budgets.

The University, under the direction of a new Acting President, is committed to the development of a Strategic Plan as referenced in paragraph (a) above.

ii) Joint COPSE and University discussions around funding in relation to the Strategic Plan.

The University will meet with Copse once the Strategic Plan is completed to discuss all aspects of the Plan, including funding required to ensure the success of the Strategic Plan.

iii) Annual meeting between COPSE and the University to discuss issues contributing to variances between the Annual Estimates Document, the Annual Budget, and the fiscal years actual results.

The University has met informally to discuss issues in 2002 and made a formal presentation to COPSE and its Board on the Estimates Document for fiscal 2003-2004. It is planned that a formal meeting will be held annually after the completion of the year end financial statements to review the financial results as compared to Budget and the Estimates Document.

iv) That a process for formalized communications between COPSE and the University take place concerning the annual budget and related issues.

This process will be part of the initiative described under paragraph (d)(iii).

v) The University prepare and submit separate operating and capital plans for Estimates and Budget purposes to COPSE.

The format was changed to present separate capital and operating financial plans for the 2003/04 Estimates submitted to COPSE in September 2002 and will be followed in the future in Budget and estimates documents presented internally within the University and to COPSE.

vi) The University not rely on one-time revenues to balance the Budget and the inclusion in the Budget of recurring expenses at acceptable levels that provide for sustainable levels of operations.

The University will budget for its operations using recurring revenues and expenditures and only where necessary and on a best-efforts basis, use non-recurring, one-time expenditures and revenues to reflect operating activity of a non-recurring nature in a budget year.

This approach has been followed in the past when one-time revenues and expenditures were incorporated into the Budget and Estimates documents that were presented and approved by COPSE. The University continues to be consistently transparent in projecting the use of non-recurring revenue.

vii) The University adopt Zero Based Budgeting for annual financial planning purposes and that the budget process be enhanced to increased department's participation in budget preparation and the ongoing amendments to Budget Plan.

While the University recognizes the merits to Zero Based Budgeting, it considered and then implemented a revised and improved budgeting process in early 2002 that took into consideration the need for a broad based process. As well, it took into account resources within the University that were available to create and manage a financial plan through the year. As commented upon in paragraph (b), the budget is now created and amended by Deans and Department Managers reporting through to their respective Vice-Presidents.

viii) Through budget monitoring on a monthly basis, discretionary spending should be carefully reviewed and curtailed in the short-term when needed to offset revenue shortfalls.

This is a sound practice of Budget Management Control that is part of the University's revised budget processes and was part of the actioning that took place to balance the operating financial results in 2001/02. It will be achieved through the Financial Forecasting process that was referred to above as well as the ongoing review of Financial results that are provided to Deans and Managers every month and support a

budget control process that is enacted by the Vice-Presidents and their Deans and Managers.

ix) A cash flow budget be incorporated into the budget process.

A detailed, consolidated cash flow model was developed in early 2002 with supporting models for operating, Trust & Endowments, Sponsored Research and Capital with the assistance of Deloitte & Touche. The cash flow projections were presented to the Board in June 2002 for fiscal year 2002/03 and now form part of the budgeting process.

x) The University should activate the budgetary control features in USL software that flags accounts that go over budget.

Administration is committed to administrative mechanisms that will assist the University staff in controlling budgets in an efficient basis. An investigation will be conducted as to the feasibility and implications of switching on the USL budget over-ride feature and if possible this will be implemented to support budget control efforts.

xi) The University consider securing a substantial portion of its external funding requirements for any major capital project prior to entering into a contract.

The University is committed to a policy for major capital projects where projects, or segments of projects, will not commence until all of the required funding is secured by the University.

xii) The University be more vigilant in monitoring cost overruns on capital projects.

The University has the monthly financial information provided to managers as well as the Financial Forecasting process that supports the efforts of Administration to keep all Capital Projects on target. Further, a newly created Capital Construction and Renovation Projects Policy will be presented to the Board for approval in January 2003 that provides for processes, assignment of responsibility and accountability of all staff involved in the management of a Capital Project within the University.

xiii) The Board policy document on major capital projects be reviewed as to scope, amounts and protocols to be followed.

A review of the existing Policy relating to Capital Expenditures was completed and found to be appropriate for the University's requirements. However, on further review, it was deemed appropriate to create a new Capital Construction and Renovation Projects Policy that is referred to in paragraph (d)(xii).

xiv) Annual budgets should be entered into the accounting system to reflect projected monthly cash flows that would facilitate variance analysis monthly.

This approach was initiated in fiscal 2001/02 in terms of the format for financial statements. (Prior to this time, financial statements were only produced on a quarterly basis). The budget process in fiscal 2002/03 has continued and additional efforts will be made in the coming year to improve upon the accuracy of the monthly budget information that is created by Academic Areas and Administration Departments as part of the Budget Process.

xv) Annual Financial Statements, when presented to the Board at year end, should be accompanied by a variance analysis.

This will be part of the plan for presentation of the annual financial statements to the Board in May 2003.

HUDSON'S BAY COMPANY ARCHIVES REVIEW

Department of Culture, Heritage and Tourism

1.0 Introduction

In January 2002 the Hudson's Bay Company (HBC) contacted the Office of the Auditor General (OAG) concerning their intentions to perform a review of the Hudson's Bay Company Archives (Archives) operations which is included under the mandate of the Provincial Services Division of Manitoba Culture, Heritage and Tourism. As a result of these preliminary discussions and meetings a decision was made that HBC audit staff would perform the Archives review in conjunction with OAG staff.

2.0 Background

The Provincial Services Division of Manitoba Culture, Heritage and Tourism delivers corporate information management programs and makes government's information accessible to the public. The Provincial Services Division is made up of three branches: Translation Services, the Legislative Library and the Provincial Archives (now known as Archives of Manitoba). The Archives of Manitoba has the exclusive mandate for the records of the Government and its agencies, the Courts, and the Hudson's Bay Company.

The Archives of Manitoba has been the designated repository of the HBC Archives since 1974. Under a donation agreement dated May 4, 1993, between HBC and the Province of Manitoba, HBC formally donated the HBC Archives to the Province. The donation was on the condition that the Province would maintain the HBC Archives as a separate division of Archives of Manitoba with a separate annual operating budget. HBC also set up the Hudson's Bay History Foundation and has made cash donations to the Foundation in order for the Foundation to establish a capital fund. The income from the capital fund is used by the Foundation to fund the operations of the HBC Archives portion of the Archives of Manitoba operations while the Province is responsible for funding the overall operations of the Archives of Manitoba. The Foundation provides the annual funding to Manitoba Culture, Heritage and Tourism through quarterly payments.

3.0 Objective and Scope

Included in the 1993 donation agreement are a number of conditions that Manitoba (Archives of Manitoba) must comply with. The objective of the Archives review was to determine if the Archives of Manitoba, with respect to Archives operations, was in compliance with the conditions of the 1993 donation agreement.

4.0 Conclusion

The Archives of Manitoba, with respect to Archives operations, was operating in compliance with the conditions of the 1993 donation agreement. However during this review some administrative matters were noted where improvements could be made.

These matters have been resolved or are in the process of being addressed by staff of the Archives of Manitoba.

FOLLOW-UP ON THE REVIEW OF MUNICIPAL FINANCIAL ACCOUNTING AND REPORTING STANDARDS IN MANITOBA

1.0 Introduction

In October of 2002 we issued the *Review of Municipal Financial Accounting and Reporting Standards in Manitoba.*

This report detailed our findings, conclusions and recommendations regarding our review of municipal financial accounting and reporting requirements in Manitoba. We compared practices to generally accepted accounting principles (GAAP) for local governments as recommended by the Canadian Institute of Chartered Accountants (CICA). These generally accepted accounting principles are found within the Public Sector Accounting Board (PSAB) recommendations.

The following summary has been excerpted from the full report which is available on our website at *www.oag.mb.ca* or from our Office on request.

2.0 Summary

Municipalities in Manitoba receive substantial monies from the Province and citizens. To ensure that municipalities are held accountable for the funds they receive, citizens need to receive appropriate financial reporting and be confident that objective and recognized accounting standards are used. Only with an understandable and accurate picture of a municipality's financial position and operations can both the Province and citizens obtain assurance that public monies are being used in an appropriate and transparent manner.

The questions researched in this review were concluded as follows:

- **What legislation governs municipal accounting and what are the required municipal accounting standards in Manitoba?**
  - As per Section 183(1) of The Municipal Act, Manitoba municipalities are required to follow PSAB recommendations in their annual financial statements. As Ministers of the Department of Intergovernmental Affairs have made no significant modifications to municipal accounting standards, we continue to believe that The Municipal Act requires PSAB recommendations to be used by all municipalities.
- **Are PSAB recommendations being applied in Manitoba?**
  - Annual municipal financial statements in Manitoba, as presented in the prescribed form currently being used, are not PSAB compliant. As such, the financial statements fail to serve their primary purpose as an understandable accountability document for the citizens of municipalities.
  - The prescribed form results in financial statements that are difficult for users to comprehend.

- **Is compliance with PSAB recommendations required by legislation across Canada and are CICA accounting recommendations being applied by other Provinces?**

  - There is increased compliance with PSAB recommendations in parts of Canada leading to more transparent and consistently prepared financial statements in those provinces. Processes were adopted in Alberta and British Columbia and are underway in Ontario and Saskatchewan to bring municipalities in those provinces into compliance with the PSAB recommendations. Manitoba municipalities are not as close to PSAB compliance as are some municipalities in those provinces.

- **What is the Department of Intergovernmental Affairs doing to ensure that municipalities are in compliance with Section 183(1) of The Municipal Act?**

  - By continuing to require municipalities to submit their financial statements in the prescribed form the Department has not promoted adoption of PSAB recommendations as highlighted in Section 183(1) of The Municipal Act.

  - The delay of the Department to prescribe PSAB recommendations has contributed to financial reporting that is neither clearly understandable nor comparable. This may result in a lack of transparency in financial information to council members, municipal administrators, and citizens, and may hamper effective decision-making on the allocation of municipal resources.

The preparation of financial statements in accordance with generally accepted accounting principles is fundamental. These principles are designed to provide for financial reporting that is readily understandable and consistent. They are intended to support transparency and accountability. We believe that citizens are not receiving the quality of financial reporting from their municipal governments to which they are entitled, and their ability to hold Council accountable is thereby impaired.

3.0 Recommendation

As a result of this review, the following recommendation is provided:

- That the Department of Intergovernmental Affairs consider what role it can undertake in encouraging financial statements of municipalities to be prepared in accordance with the PSAB recommendations of the Canadian Institute of Chartered Accountants, which in turn would have municipalities preparing annual audited financial statements in compliance with Section 183(1) of The Municipal Act.

  - This could involve discussions with the Institute of Chartered Accountants of Manitoba (ICAM), the Association of Manitoba Municipalities (AMM), and the Manitoba Municipal Administrators' Association (MMAA) to develop a time table for adopting generally

accepted accounting principles over a short period of time; eliminating the prescribed form in favour of a general requirement for financial statements to be prepared in accordance with PSAB; invitation of PSAB representatives to conduct training in Manitoba; discussions with the ICAM to inform the professions of changes; and having municipalities discuss with their external auditors a timetable for adopting generally accepted accounting principles as soon as possible so that they can move into compliance with The Municipal Act.

- The Department could prescribe a standard audit opinion that states that financial statements are "in accordance with recommendations made by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants".

Update from the Department of Intergovernmental Affairs

The Department supports the Auditor General's recommendation that municipalities should be encouraged to adopt the PSAB recommendations when preparing financial statements. Subsequent to the report, the Department consulted with representatives of the local government stakeholder groups, the Association of Manitoba Municipalities and the Manitoba Municipal Administrators' Association, to discuss developing a joint process and timeline to implement PSAB recommendations in Manitoba. The Department invited representatives of those local government stakeholder groups to participate on a working committee for developing the strategic implementation process. In support of that effort, the Department completed a review of the anticipated operational impacts and other effects that implementation of the PSAB recommendations may have on the accounting and reporting practices of local governments. That review is being used to assist the stakeholders in developing an appropriate and reasonable process and timeline for the implementation project, which will be refined in consultation with other interested groups like the Institute of Chartered Accountants of Manitoba and PSAB representatives.

Based on consultations with local government stakeholder groups (i.e., the Association of Manitoba Municipalities and the Manitoba Municipal Administrators' Association), it is clear that flexibility with respect to a timetable for compliance will be required because of the varying size and capacity of municipalities. To assist with compliance the Department will be arranging further training workshops and/or additional assistance to help municipalities prepare PSAB compliant information. Stakeholder groups also felt some type of sample format as a guideline for compliance is useful and necessary. The Department, in consultation with the

Canadian Institute of Chartered Accountants, will be preparing a sample format which will be PSAB compliant. Once completed, it is the department's intent to issue a directive requiring all municipalities to prepare PSAB compliant financial information. If municipalities feel that they are unable to do so at the next reporting period, phase in of PSAB compliance will be considered by the Minister in accordance with Section 183(1) of The Municipal Act, on a case by case basis if municipalities submit an implementation plan for moving to PSAB compliance.

Update from the Office of the Auditor General

As at February 2004, municipality statements are not being prepared in accordance with PSAB recommendations.

Excerpt: The Auditor General Act

Audit of other public money

9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Audit of operations

14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:

(a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;

(b) whether public money has been expended with proper regard for economy and efficiency;

(c) whether the Assembly has been provided with appropriate accountability information;

(d) whether the form and content of financial information documents is adequate and suitable.

Audit of recipient of public money

15(1) The Auditor General may conduct an examination and audit in respect of public money received by a recipient of public money, including the matters listed in subsection 14(1), and may require the recipient to prepare and give to the Auditor General the financial statements setting out the details of the disposition of the public money received.

Special audit request

16(1) When requested to do so by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts, the Auditor General may examine and audit the accounts of a government organization, recipient of public money or other person or entity that in any way receives, pays or accounts for public money. But the Auditor General is not obliged to do so if he or she is of the opinion that it would interfere with the primary responsibilities of the Auditor General.

Content of the report

10(2) The report must indicate anything resulting from the work of the Auditor General that he or she considers should be brought to the Assembly's attention, including, but not limited to, circumstances in which:

(a) required information was not provided or was not provided within a reasonable time;

(b) accounts were not properly kept or public money was not fully accounted for;

(c) essential records were not maintained, or the rules and procedures applied were insufficient, to

- ***(i)*** safeguard and control public property,
- ***(ii)*** secure an effective check on the assessment, collection and proper allocation of revenue, or
- ***(iii)*** ensure that expenditures were made only as authorized;

(d) public money was expended for purposes other than those for which it was appropriated by the Legislature;

(e) financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

No obstruction

15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Access to information

18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from:

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this Act.

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